THE

Indian Taxation Enquiry Committee

Volume III

EVIDENCE

DELHI AND BENARES

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The Indian Taxation Enquiry Committee.

QUESTIONNAIRE.

Incidence of Taxation

1 Annexure A gives an account of the statistics at present available for the purpose of an estimation of the wealth of the country How far do you consider them (a) adequate and (b) reliable?

2 In Annexure B is a list of estimates which have been made of the wealth of the country or the average income of the inhabitants, in many cases with reference to these statistics Have you any additions to make to this list or any criticisms to suggest on the several estimates?

3 The estimates of national income for other countries are largely dependent on statistics of income tax (which cover incomes from all sources) and death duties Do you agree that there are no corresponding figures in India on which it is possible to have any estimate?

4 Have you any suggestions to make for the improvement of the present methods of recording and compiling the available statistics which would not involve legislation or large expense?

5 The British census of production, which was provided for by the Census of Production Act 1907, took several years to complete and cost a large sum of money Would you advocate the taking of a similar census of production in this country?

6 A Bill was recently introduced in the Bombay Legislative Council which provided, among other things for the collection of information on the following lines —

(1) from substantial employers of manual and clerical labour for industrial and commercial purposes—statistics and facts regarding wages and conditions of labour;

(2) from trading proprietors—statistics of prices; and

(3) from landlords—statistics of rentals of house property.

Would you advocate the undertaking of all-India legislation on the same or similar lines?

7 Estimates of the kind above referred to are useful for comparison with past estimates for the same country or contemporary estimates for other countries. Have they any value beyond this in relation to an enquiry into the incidence of taxation?

8 Annexure C gives details of the more intensive enquiries into the conditions of different sections of the people of which the Committee have been able to trace records Can you refer them to any others? Are these sufficiently numerous and reliable to form the basis of an estimate of the incidence of taxation on different classes? If not, what process would you suggest for ascertaining such incidence?

9 How would you divide the population into classes with reference to the taxes that affect them? Can you offer any suggestions which would assist the Committee in determining the question of the real incidence of taxation as distinguished from its primary or apparent incidence?

Non-tax Revenues.

10 To what extent does the land revenue of your province include revenue from sales of waste lands, or trees, revenue from penalties, or other items that clearly do not fall within the definition of a tax?

11 Are any similar items included under other revenue heads?

12 Do you consider the whole or any part of the revenue from Forests to within the definition of a tax?

13 In the case of a Government commercial or semi-commercial should the endeavour be to secure (a) a bare return on the capital invested, (b) a commercial return, or (c) a monopoly profit? In which cases will element of tax appear?

14. Is there any, and if so what, element of taxation in the revenue derived in India from—

(a) railways, (b) tramways, (c) posts and telegraphs, (d) telephones, (e) cinchona, (f) profits on coinage or exchange?

15. Is the charge for water supplied for irrigation adequate? On what principles is it fixed?

The following plans have been suggested or adopted elsewhere. Which of them do you prefer?

(1) to charge the bare cost of supplying the water, including interest on capital invested,

(2) to charge a fair commercial profit,

(3) to increase the land revenue by taking the same proportion of the combined output of land and water as would otherwise have been taken of the output of the land,

(4) to charge by volume,

(5) to sell the water by auction to the highest bidder

16 When land newly brought under irrigation or guaranteed a supply of water for the first time increases largely in value, is it right that the State should take a portion of the increase? If so, what proportion would you fix? Would you take it in a lump sum or in the shape of a betterment tax?

17 What bearing have the tenancy laws in areas with which you are acquainted on such proposals?

Payments for services rendered

18 Is it correct to assume that the dues levied under the Indian Ports Act are payments for services rendered in respect of the safety of shipping, and dues levied under the Port Trust and similar Acts payments for services rendered in respect of goods and passengers, and that these dues do not fall within the category of taxes imposed on the general tax-payer?

19 How should taxes imposed solely for expenditure on the needs of particular localities be dealt with in considering the general incidence of taxation?

20 In considering the incidence in the locality, would you distinguish between those which are earmarked for particular services and those which are levied for the general purposes of the local body? If so, which taxes would you put into each class?

Optional taxes.

21 Economists and public men are divided (*vide* quotations in Annexure D) as to the extent to which indirect taxation should be regarded as voluntary. Do you consider that any taxes should be regarded as voluntary and as such excluded from consideration in estimating the burden upon the tax-payer?

22 If so, to what taxes would you extend this classification either wholly or in part? Please give your reasons in detail.

23 In the case of tobacco and intoxicating liquors, do you agree with the following statement?

"Immoderate smokers and drinkers contribute heavily to taxation; the consumption is of luxuries and it is optional. This taxation raises revenue, but imposes no economic burden."*

24 How would you regard the case of a tax upon entertainments or one on railway tickets?

25 Would you in this connection make any distinction between classes of the population? Would you, for instance, exclude the excise revenue from consideration in estimating the burden of the classes who by religion or custom are prohibited from taking intoxicants?

General Principles.

26. The Committee are instructed to report whether the whole scheme of taxation is equitable and in accordance with economic principles. Taking the maxims enunciated by Adam Smith as a basis, what additions or qualifications, if any, would you make to arrive at the principles now generally accepted? If you can reply by reference to any recent literature on the subject, please do so.

Incidence on the poorest classes and Poll Tax.

27. Should every member of the community pay a tax of some sort? If not, what should be the test for exemption?

* Armitage Smith: Principles and Methods of Taxation, page 92

28 Is taxation a proper accompaniment of representation?

29 In either case should the tax imposed be direct or indirect?

30 If a direct tax is recommended, is a poll tax a proper form for it to take? Do you consider the capitation tax as levied in Germany, France or Switzerland, or the United States, for instance, objectionable?

31 Do you consider the following taxes comparable with these? What is your criticism of them?

(1) The thathameda

(2) The capitation tax in Burma and certain hill tracts of Assam.

(3) The chaukidari tax

(4) The profession tax in the case of the lowest classes on which it is imposed

32 Do you consider these more or less objectionable than the salt tax, the customs or excise duties on cotton, kerosine oil or matches, and the octroi?

Income Tax

33. A statement is attached (Annexure E) comparing the rates of tax on incomes of different sizes in England and India and some other countries. In the event of a substitute being required for other taxation that is abolished, would you advocate an increase in the rates of income tax? If so, to which classes of incomes would you apply it?

34 Do you consider that the present scheme of graduation is satisfactory or would you prefer one based on English or continental practice?

35. Do you advocate any differentiation in favour of earned incomes or of sums shown to have been invested in productive enterprises?

36. Is it practicable without proceedings of an inquisitorial nature to make allowances for the number of persons supported out of particular incomes?

37 The Indian super-tax on companies is analogous to the English Corporation Profits Tax The former has been justified on the ground that companies enjoy special privileges as compared with persons and firms in the matter of corporate finance and limited liability. The English Corporation Profits Tax was defended on the same ground and also on the ground that the undistributed profits of companies escaped liability to super tax, whereas liability extended to the whole profits of individuals and partners whether distributed or not · when in 1922 it was enacted that, when a company failed to distribute a reasonable proportion of its profits by way of dividend the whole of the undistributed profit should be liable to super-tax at the maximum rate, the case for the continuance of a Corporation Profits Tax was manifestly weakened and it was felt that the privilege argument was insufficient to justify a continuance of the duty, which was in fact repealed in 1924 Do you favour a continuance of the Indian super-tax on companies in its present form or do you consider that it should be either abolished or imposed in some other form?

38 Are you in favour of the removal of the exemption of incomes derived from agriculture which was given under Act II of 1886? In dealing with this question, would you draw a distinction between the actual earnings of the farmer and the income of the absentee landlord or the money-lender who has become a landowner through the foreclosure of a mortgage? If the present limits of exemption were applied, what would be the proportion of persons actually farming their land that would be affected?

39 Do you agree with the following estimate of the amount that could be secured by making agricultural incomes liable to income-tax?

'If the agricultural incomes, which now escape taxation altogether, are taxed in the same manner as the industrial and the commercial incomes, after allowing for the necessary margin of subsistence as being utterly exempt from taxation, the probable gain to the revenue would be from sixteen to twenty crores of rupees'*

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* Shah and Khambata Wealth and Taxable Capacity of India, page 277

14. Is there any, and if so what, element of taxation in the revenue derived in India from—

(a) railways, (b) tramways, (c) posts and telegraphs, (d) telephones, (e) cinchona, (f) profits on coinage or exchange?

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Incidence on the poorest classes and Poll Tax.

27. Should every member of the community pay a tax of some sort? If not, what should be the test for exemption?

* Armitage Smith: Principles and Methods of Taxation, page 92

*"The rule that necessaries should be free and that indirect taxes should fall only on luxuries is thus a counsel of perfection not always attainable, in a country where three-fourths of the population consume no luxuries, the majority can only be taxed through necessaries, and in these circumstances there is no hardship in such a tax."

49 In other countries an excise duty is frequently imposed on various commodities side by side with a customs duty of equal or greater amount. A list of articles which are the subject of such duties is given below In the event of new taxes being required to replace taxes that may be abolished or reduced, would you recommend an excise on any of the articles in this list which are not at present subject to an excise in India?

Acetic acid
Aerated waters.
Benzine
Candles
Cartridges.
Chewing gum.
Cigarette papers
Chocolates
Coal
Coffee
Cotton goods
Crude oil
Electric power
Gas
Lighting materials
Matches
Meat
Motor cars.
Oleomargarine.
Patent medicines
Perfumery.
Petrol
Paraffin oil
Playing cards.
Pleasure vessels.
Saccharine.
Salt
Soap
Sauce
Sugar.
Sweets
Tobacco
Toilet articles.
Wax.
Yeast

50 †"It is possible to apply to indirect taxation the graduated or progressive principle which is now becoming so popular in the case of direct taxation Why should not taxation on consumption be so graded as to fall with heavier impact on the consumption of the wealthier classes? Why should not the whisky tax be imposed at a higher rate on the better grades? Why should not the tobacco tax be so arranged as to increase progressively with the price of the cigar? If we apply graduated taxation to incomes, inheritances, and property, why should we not utilise the same principle as far as practicable, in the case of articles of consumption?"

Do you consider such graduation practicable?

51 Please say whether you accept the following statement of the general policy in respect of the taxation of salt which is extracted from a recent American publication — *Salt.*

‡"From ancient times salt has frequently been selected for special taxation. Almost every country has taxed it at one time or another An alternative method of exacting revenue from the salt industry has been to make it a fiscal monopoly. Such has been the case in Japan, China, France, Austria and Italy Elsewhere it is usually the object of a high excise duty From every point of view salt is admirably adapted to be a tax-bearer It is universally used, but the amount that is used by any one tax-payer is small The demand is very inelastic, especially when the tax is confined to salt used for cooking purposes While the yield, unless the rate be very high, is not large, it nevertheless amounts to something, and in the case of a fiscal necessity all sources may need to be drawn upon. The purpose of regulation plays no part in the taxation of salt"

52 Assuming that it is proper to impose any taxation at all upon the poorest classes, do you accept the statement that§ "it would be difficult to devise any other duty of general incidence less oppressive and less open to evasion" than the salt tax? If not, what tax would you substitute?

* Armitage Smith : Principles and Methods of Taxation, page 92

† Seligman, quoted in Bullock Selected Readings in Public Finance, page 6?8

‡ Jensen : Problems of Public Finance, pages 303 304

§ Armitage Smith Principles and Methods of Taxation, page 116.

53 Having regard to the rates imposed in other countries, as shown in Annexure G, do you consider that the rate of tax at present imposed in India is high or low?

54 Roughly speaking, half the salt manufactured in India is sold directly by Government at cost price, half by licensees at a competitive price. Would you advocate an extension of either system at the expense of the other?

55 If it were shown that a cheaper and purer article could be produced by substituting large scale manufacture for production by a very large number of petty holdings, would you consider this a proper ground for a gradual extension of the Government monopoly?

56 Twenty-five per cent. of the salt consumed in India is imported and the fact was the cause of much difficulty during the war. Do you consider that it would be proper to impose a protective duty to enable India to be self-supporting in this respect? Would that be fair to the Bengal consumer?

57 What are the economic results of the process of sifting? If it is practised solely for the purpose of increasing the trader's profit, do you consider that it should be prohibited?

58 Would you advocate the enforcement of the sale of salt by weight in areas in which it is now sold by measure?

59 Do you consider that the cost of transport could be reduced and retail prices steadied by opening depots for the sale of salt by Government? Are you in favour of action on these lines?

60 A note is attached [Annexure G (1)] detailing the processes which are recognised in France for the denaturation of salt with a view to its issue free of duty for use in agriculture and industries Do you consider it practicable to employ any of these methods in India?

Excise on liquors and drugs

61 Do you anticipate the introduction of a policy of total prohibition, now or in the near future, either generally or in particular areas?

62 It has been calculated that such a policy would involve a large expenditure for its enforcement, in addition to a loss of revenue of 20 43 crores of rupees If you are an advocate of total prohibition, how would you recommend that this money be found? Do you approve of either of the following schemes —

(a) Proposals made by Dr Mathai in his pamphlet "Excise and Liquor Control"—

(i) a super-tax on land revenue at a percentage varying from year to year to be assessed on landholders paying revenue of Rs 50 and over at graduated rates,

(ii) a provincial surcharge (a rate of 20 per cent is suggested) on the income-tax

(b) Proposals of the Bombay Excise Committee, 1923.—

	Rs
A succession duty to yield	50 lakhs
A totalizator duty to yield	20 „
Taxation of "futures" to yield	50 „
Increase of local fund cess to yield	30 „
Tobacco tax to yield	5 „
Employee tax to yield	40 „
Transit tax to yield	£0 „
Terminal tax to yield	50 „

63. Failing total prohibition, do you accept all or any of the following statements regarding the policy to be pursued in the taxation of intoxicants?

"It is not true that every tax is an evil A tax on alcohol, which by raising its price diminishes its consumption, may be a positive good*."

* Dalton: Public Finance, page 7.

"The suitableness of distilled and malt liquors and tobacco for taxation is recognized by nearly every civilized country, and it is the uniform practice of European Governments to derive from them the largest possible revenue consistent with efficiency of administration *"

"The only important indirect taxes which an intelligent State would retain are those directed to the control and restraint of a few important articles of popular luxury, the large consumption of which is not merely a presumption of the possession of superfluous income, but is definitely detrimental to personal health, morals or public order. Of this character are alcoholic drinks and tobacco in the dimensions of their present use."†

"Where a tax is levied upon a luxury, a harmful luxury, or something whose consumption is agreed to be sufficiently undesirable to justify its limitation, then we have the best possible case for indirect taxes The object is not 'revenue only' (in fact it seldom is), but revenue together with an ulterior purpose the deliberate discouragement of the use of a certain article "‡

"Human nature being what it is, the increased dearness of a particular article is more likely to have a definite effect on the consumption of that article than an income tax, which would tend to be saved out of *all* the commodities That is to say, a direct tax on a wage-earner is more likely to reduce expenditure on primary essentials, and so to react on efficiency as to be thrown off on to other classes, than consumption taxes on specific non-essentials."§

"The same kind of confusion of causes is shown by the new thought over the taxation of the liquor trade. Alcohol is found to be at the root of very grave social evil, and it is said that for that reason it is taxed Whatever might be our wish in this matter, starting *de novo*, this can hardly be said to be historically correct . . . . The new doctrine of the State right to a dynamic policy is only subsidiary and the taxation can be justified without it . . . The tenth pint of the drunkard pays the same tax as his first, and the same tax as the occasional pint of a most abstemious man If one could not justify taxation of alcoholic liquors on general economic grounds, but had to rely on the new-found principle, it would find but poor justification in its actual working out in practice "

64 Regarded as a measure of taxation, does the policy followed in your province fall short or go in advance of that which you would approve?

65. The table attached as Annexure H shows that the rates of duty on country spirit per proof gallon vary from Re 0 7 6 to Rs 20-10 0 Do you consider any of these too high or too low? Is it practicable to reduce the variety, if not to introduce a uniform rate, as in other countries?

66 Have recent increases in the rates been followed by increases in illicit production?

67 Do you consider that locally-made imitations of imported liquors should be taxed at the tariff rate and given the same freedom from restrictions on transport as is given to foreign liquors?

68 Would you approve of the imposition of supplementary duties on foreign liquors by Local Governments?

69 When varying rates of duty obtain on foreign liquors, whether locally-made or imported, how are the relations between provinces to be adjusted?

70 The experiments carried out at the instance of the Excise Committee, 1906, showed that *tari*, even when freshly drawn, was as intoxicating as a mild beer In the provinces with which you are acquainted is it taxed adequately, having regard to its alcoholic contents? If not, can the taxation be increased by means of the tree tax system or otherwise?

71 Annexure I exhibits the rates of taxation per seer on *ganja*, *charas* and *bhang* Do you consider that in this case there is any sufficient reason for variety of rates?

72 From the point of view of taxation, is the system of wholesale supply of intoxicating liquors and hemp drugs satisfactory?

53 Having regard to the rates imposed in other countries, as shown in Annexure G., do you consider that the rate of tax at present imposed in India is high or low?

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Taxation of "futures" to yield	50 „
Increase of local fund cess to yield	30 „
Tobacco tax to yield	5 „
Employee tax to yield	40 „
Transit tax to yield	50 „
Terminal tax to yield	50 „

63. Failing total prohibition, do you accept all or any of the following statements regarding the policy to be pursued in the taxation of intoxicants?

"It is not true that every tax is an evil. A tax on alcohol, which by raising its price diminishes its consumption, may be a positive good*."

* Dalton Public Finance, page 7.

82 Are there any articles, not at present subject to export duties, by the imposition of an export duty on which a revenue could be secured without injuring the trade of India?

83 Do you favour *ad valorem* or specific duties?

84 Is the system of tariff valuations working satisfactorily?

85 Have you any criticism to offer on the system of appraisement?

86 *Are the arrangements for preventing smuggling satisfactory* (*a*) at the main ports, (*b*) along the coast, and (*c*) on the land frontiers? If not, in what way can they be improved?

Taxes on Transactions, Fees and Licenses.

87. The list attached as Annexure K specifies some of the taxes on transactions that have been adopted in other countries and not yet tried in India, and some of the principal countries that have adopted them Do you advocate the substitution of any tax of this nature for any existing tax? If so, which of these would you prefer?

88 The stamp duties are merely a means of collection of taxes upon transactions, which may be grouped into the following classes —

Nature of transactions.	Items of Schedule of the Indian Stamp Act
Free distribution of property	33, 58
Transfer, or lease of property	6, 7, 19, 22, 23, 31, 32, 35, 40, 41, 45, 54, 55, 57, 61, 62, 63, 64.
Inheritance	2, 3
Legal transactions	4, 5, 7, 12, 24, 25, 26, 28, 29, 42, 44, 48, 50, 51, 52
Commercial transaction	1, 8, 10, 13, 14, 15, 16, 18, 20, 21, 34, 36, 37, 38, 39, 43, 46, 47, 49, 53, 56, 59, 60, 65
Entry into a profession or apprenticeship	9, 11, 30

Have you any comment to make on these duties generally, or upon any special class of them?

89 Bentham included among taxes which should be interdicted taxes on judicial proceedings, whether under the name of stamps or of court fees Please say whether you consider that the stamps collected on such proceedings should be so limited as just to pay for the cost of the courts including pensions of officers and capital cost of buildings, or whether it is legitimate to tax ability to pay as exhibited by resort to the law

90 Hobson* states that the whole of the stamp duties on deeds of disposal or transfer of property are levied in restraint of trade or other forms of presumable personal and social utility Do you agree in this criticism?

91 To what extent is payment of duty on transfers of shares evaded? Can you suggest any remedy for such evasion?

92 *Fees tend to develop into taxes* This has undoubtedly occurred in the case of the liquor licenses Are there any other fees levied in India in which you find that an element of taxation appears?

93 In the case of Registration fees, do you consider that the fees levied should only be sufficient to pay for the cost of the Registration staff, including pensions, capital cost of buildings, etc? Or, is it legitimate to charge a higher sum on the ground that the act of registration of a transaction is only part of the service rendered by the State to the party?

* Taxation in the New State, page 125

94 Are there other cases of fees or licenses in which, in your opinion, a further element of taxation might with advantage be introduced?

95. As regards the tax on entertainments, Dalton writes:* "The British entertainments tax is a source of much vexation to those from whom it is collected, and involves the employment of additional inspectors, whose salaries might be saved if the corresponding revenue were raised by additions to other older taxes" Would you advocate the increase of older taxes in lieu of the entertainments tax where it is levied in India? Or, would you prefer to see a more general extension of the entertainments tax?

Land Revenue

96 How would you define a tax and a rent respectively? What, from the point of view of pure economics, are the considerations tending to bring the Indian land revenue within one or the other category? Do these considerations apply equally to the systems in force in different parts of India?

97 Is the prosperity of the cultivator affected largely by the land tax? If not, what are the causes that influence it?

98. Do you concur in the following criticisms?

"Adam Smith, the founder of modern finance, laid down four universally accepted canons of sound taxation, and not one of them remains unviolated if applied to our system

"The land revenue assessment ignores 'the ability to pay' of the subject.

"Except where there is a system of permanent settlement in vogue, the assessments lack the element of certainty

"The present system leads to more official tyranny and extortion than any other system we can think of . The time of payment of revenue is most inconvenient for the cultivator

"Approximately 20 per cent of the revenue is spent on collection alone, leaving aside the expenses of the administration "†

99. The fact that temporary settlements are based, among other things, on prices for different periods obviously leads to a certain amount of inequality. Is this avoidable?

100 ‡ 'The present income-tax law exempts incomes below Rs 2,000 a year, which is considered the subsistence level Similarly there should be an exemption limit in the case of agricultural incomes." Is Rs. 2,000 a year the subsistence level? Is it practicable for a taxing officer to ascertain whether an agriculturist's income exceeds this or any limit? If such an exemption from payment of land revenue were given, would not one effect be to induce the further fractionisation of holdings?

101 A suggestion has been made that a tax should be imposed on mutations with a view to checking fractionisation Would you approve of this? Is there any other means of effecting such a check?

102 §"In old countries newly discovered natural resources of high values should not be allowed to become private property, and in new countries many natural resources, especially those that are practically certain to increase in value, should not be allowed to become private property except for a limited and predetermined period" Would you apply this principle, for instance, to waste land newly brought under an irrigation scheme?

103 In view of the various and unequal ways in which land revenue is leviable within municipal limits in some provinces, would you advocate the adoption of a uniform plan or the abandonment of that field of taxation to the local authority?

104 How would you arrive at the comparative incidence of the land revenue in different provinces? Please give reasons

The following are among the methods suggested—

(1) to divide land revenue by total population of the province,

(2) to divide land revenue by occupied area,

* Public Finance, page 122.
† Sirdar Gulab Singh, M L A, I L A, Debates, Volume IV, No 65, pages 3759-90
‡ Paper read by Professor T. A Shahani before the 8th Annual Conference of the Indian Economic Association
§ Dalton : Inequality of Incomes, page 279.

(3) to compare the assessment, where available, on soil units,

(4) to compare the percentage borne by assessment to rents or annual value,

(5) to compare the percentage borne by land revenue to gross or net produce

105. The revenue derived from minerals consists of— *Minerals.*

(1) royalties on minerals removed from lands that are the property of Government,

(2) income tax on the royalties collected by zamindars and others on mines situated on their properties,

(3) income tax on the profits of the companies that work mines

Do you consider that any further taxation should be imposed on the exploitation of or trade in minerals, or the possession of mines? If so, of what nature should it be?

106 The services normally administered by local authorities are usually classified in two categories, viz — *Local Taxation.*

(a) national or onerous,
(b) local or beneficial.

Do you agree generally that the main criterion for levying the taxes necessary for the services comprised in (a) is ability to pay, and for those comprised in (b) the measure of the benefits received?

107 Do the taxes included in schedule II to the Scheduled Taxes Rules give sufficient scope to local bodies, or would you prefer to give them further powers of taxation? Should the levy of any specified taxes be imperative?

108 Apart from taxes earmarked for particular services of a purely local character the bulk of the revenues levied in India by municipalities and local boards is derived from taxes of three kinds, viz, octroi (or its alternative the terminal tax) house and land tax, and land cess To what extent are these taxes satisfactory from an economic point of view? Do you consider that any of these taxes should be discontinued? If so, by what tax or taxes would you replace them?

109 Please comment on the following criticism of the octroi duty

"An octroi is in reality a local customs duty, inconvenient, clumsy and costly in collection, its incidence is heavy upon the poor, since it is levied mostly upon necessaries it increases the cost of living, and the burden of the tax is not distributed in any degree in proportion to the benefits gained by local expenditure" *

Does the same criticism apply to the terminal tax in the form in which it is usually levied in India?

It is alleged that the octroi duty is liable to be extensively evaded. Can you confirm or refute this allegation from your own experience?

110 What are the reasons which have operated to secure the retention of the octroi in parts of India for so long? Are they still operative?

111 Tolls have been abolished, save in a few exceptional cases, in most European countries Do you consider that there is any justification for their general maintenance in any part of India? If they are maintained, what should be the minimum limit of distance between one toll gate and another?

112 Is it right that the house and land tax and the land cess should be levied in whole or in part from the owner? Is the owner able to shift the burden of the tax on to the occupier?

113 In England, where the rates are normally paid by the occupier, a local authority has power to impose whatever rate may be necessary on the annual value of land and buildings, and in fact a rate exceeding 20 shillings in the £ is not unknown In India the amount of the land cess and the rate of tax on land and houses which may be imposed by local authorities is generally limited Do you consider that there are good reasons for such limitation? If so, what are they? Does the existence of this limitation tend

* Armitage Smith Principles and Methods of Taxation, page 176

to compel local authorities to have recourse to other forms of taxation which may be less defensible from an economic standpoint?

114. What is the limit of exemption from the house tax in municipalities with which you are acquainted? Have you any comments to make on it?

115. What policy would you adopt in respect of the rating of land within municipal limits? Would you approve a policy of rating it on its undeveloped value and of exemption of improvements?

116. What is your experience, if any, of the levy of (*a*) a profession tax, (*b*) a tax on companies, or (*c*) a manufacturing tax on cotton?

117. It has been generally recognised that it is unreasonable to require that the funds necessary to finance a national or onerous service in a given local area should be raised entirely in that area and that a proportion of the expense should be borne by the general tax-payer. The usual method of attaining this object is by means of grants-in-aid from general governmental funds. On what principle do you consider that such grants should be given? Should they be an unconditional contribution in general aid of local finances or should they be earmarked for particular forms of expenditure? On what basis should such subsidies be calculated?

118 The extent to which the Government providing the grant should retain control over the expenditure of the grant by making the payment dependent on the attainment of a minimum degree of efficiency in the administration of the service for which it is earmarked would seem to depend on the absence or presence of a sufficient local stimulus to ensure a reasonable standard of efficiency. Would you say that in India such a stimulus exists in the case of such important services as education, sanitation and road maintenance?

Taxes not at present levied in India.

119 A number of taxes which are levied in other countries and not in India have already been referred to under the preceding questions. The following are a few others —Taxes on business profits, capital stock of corporations, employers of labour, hotels, mines and transactions in capital and exchange In the event of further revenues being required to make up a reduction under other heads, do you advocate the introduction of any of these?

120 Please criticize the following alternative suggestions for filling any deficiency that may arise through the abolition or reduction of existing taxes —

(i) J. C. Jack in the Economic Life of a Bengal District, pages 136-137: A universal income tax, embracing every income and varying with the size of the family.

(ii) Professor K. T. Shah in Sixty years of Indian Finance, pages 327 to 334: Income tax on agricultural incomes, succession duties, tobacco monopoly, registration fee on marriages, tax on houses, tax on motor cars and other vehicles, tax on horses, servants and other means of display, tax on betel leaf and areca nuts

(iii) A member of the Indian Economic Association held at Patna, page 38: A tax on dowries, to vary according to the size of the dowry.

(iv) Professor K. V. Rangaswami Ayyangar in the Proceedings of the Third Annual Conference of the Indian Economic Association, pages 195-193: Income tax on agricultural incomes, tax on advertisements, death duties, tax on patent medicines, and on luxuries such as race horses, motor cars, and costly imported articles of consumption, universal inhabited house duty, and increment value duty.

(v) Vakil in Financial Developments of Modern India, pages 538 541: Export duty on jute, 25 per cent. *ad valorem*, monopoly of shellac, export duty on hides and skins, marriage duty of one rupee by each party.

(vi) Sir Ganga Ram 'Production *versus* Reduction', page 51, "the land revenue should be altogether abolished, substituting a produce tax of one sixth of the value of each and every product of the land, including cereals and live animals. This tax I would charge on all such produce brought to the railway station, whether it be for provincial consumption, for transfer from one province to another, or for export to other countries, exempting only a certain local radius intended to cover home consumption."

121. "As an object of taxation tobacco is, from a fiscal point of view, even more desirable than salt It is widely used and the amount used by any one person is never very large, yet the aggregate revenue is large There is in favour of taxing tobacco the argument that it is not a necessity, and that if the tax leads to curtailment of consumption, so much the better from the social point of view From an administrative point of view the tax on tobacco has the advantage of being administered at very low cost."* Tobacco.

Do you agree in the above statement of the case?

122 The possible means of levying a tax on this article may be summarised as follows —

(1) by imposing an acreage duty on cultivation;

(2) by requiring all tobacco locally grown or imported to be sold to the State, by which it is made up and sold at fixed prices,

(3) by entrusting similar functions of purchase and manufacture to a company in which the State holds a preponderating share;

(4) by exercising a strict control over cultivation and allowing manufacture in bond,

(5) by controlling all dealings subsequent to the initial sale by the cultivator to the manufacturer and prohibiting sale except in packages bearing a revenue stamp

123 In view of the wide prevalence of cultivation both in British India, as illustrated by Annexure L and in the Indian States, is any of these systems practicable in this country? If so, which of them do you prefer?

124 As regards control of cultivation, the French system eliminates the petty cultivator by refusing licenses for less than a specified area The English system apparently produces the same effect through means of rules requiring bonds and the provision of suitable curing premises Would you advocate the limitation of cultivation to areas in excess of a fixed minimum, and, if so, by what means would you effect this purpose?

125 The produce per acre varies in a manner unknown in more temperate climates In the event of an acreage duty being imposed, how would you get over the difficulty arising out of this circumstance?

126 Would it be practicable to collect an acreage duty in Bengal without employing a very large additional staff?

127 Would it be practicable to prevent import from Indian States?

128 Would it be an appropriate way of securing the bringing of the leaf into bond to impose an acreage duty which would be recoverable on production of the receipt of the bonded warehouse?

129 Would you permit the cultivator to grow a fixed maximum quantity for domestic purposes?

130 Under a system of manufacture in bond or on payment of duty, at what stage of the preparation of the leaf should the tobacco grown be brought to account or assessed? How would you control operations from the cutting of the crop to this stage? What would be the effect upon the cultivation of the imposition of such control?

131 Would you advocate the raising of a presumptive charge with reference to the quantity of the raw material to be used in the manufacture?

132 The rates of customs duty on cigars, cigarettes, manufactured and unmanufactured tobacco and snuff, respectively, are given in Annexure M If an excise were imposed upon local manufacture, at what rates would you fix it on cigars, cigarettes, manufactured tobacco, *biris* and snuff?

133 Specific duties are objected to on the ground that they are regressive, *ad valorem* duties on the ground that they give rise to evasion Which class do you favour in the case of tobacco, cigars and cigarettes?

* J P. Jensen Problems of Public Finance, pages 304-305

134. Annexures N and O illustrate the fluctuations of the imports and exports of the different classes of tobacco under different rates of duty. To what do you ascribe the increase in the imports of manufactured tobacco and the decrease in the export of cigars? What would be the effect on the cigar trade of your proposals, if any, for local taxation of tobacco?

135. To what extent are Indian-made cigarettes made of Indian and imported tobacco, respectively? Would the imposition of an excise duty tend to handicap a growing Indian industry? Would a heavy duty on imports of manufactured tobacco be preferable?

136. Would you advocate the prohibition of wholesale and retail sale except under license? If so, which of the following systems would you adopt:—

(a) to give contracts for monopoly of retail vend for fixed areas;

(b) to limit the number of licenses and sell them by auction, or

(c) to issue licenses to all applicants on payment of a moderate fixed fee?

Duties on inheritance or succession.

137. Nearly all modern communities have taxes on property changing hands at death; and local Governments, politicians and economists have made proposals for the introduction of such duties in India. Do you agree that, in the event of new sources of taxation being required to replace old sources that may be condemned, such duties should be among the first to be considered?

138. * "Taxes of this kind may be graduated on any of three principles; they may vary with the size of the estate left, with the degree of relationship of those who inherit the property to the testator, or with the amount inherited by each individual heir." Would all or any of these methods be appropriate to the circumstances of India? If not, what method would you suggest?

139. Do you agree with the following propositions?

(1) † "Taxes on inheritance ought to be levied at unchanging rates in order to secure equality in the distribution of their burden."

(2) ‡ "No personal tax can be administered with safety, facility and equity unless it covers the whole of an economic community represented by a nation."

(3) § "The most promising solution would seem to be in a system by which all inheritance taxes should be levied and collected by the Federal Government, but a distribution of the revenue arranged between the Federal Government and the several States."

140. A schedule of rates in force in different countries is attached as Annexure P. Do you consider any of these appropriate to India?

141. The following ways have been suggested of meeting the difficulties arising out of the joint family system:—

(a) to apply the tax to the share of the deceased;

(b) to tax the whole property of the family on the decease of each managing member;

(c) to make an annual or periodical levy similar to that made in Europe in the case of continuing corporations, *e.g.*, by the English Corporation Duty, or the now repealed Increment Value Duty.

Do you consider any of these to be appropriate, or can you suggest any other?

142. Do you accept the proposition "that in the case of the larger landholders the administrative difficulties occasioned by the absence of any machinery for the collection of such a tax is insignificant as the law and practice of succession is analogous to that of England, and a similar machinery can be easily instituted to collect this item of revenue" ‖?

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* Robinson: Public Finance, page 61.
† Bullock: Selected Readings in Public Finance, page 437.
‡ Stamp: Fundamental Principles of Taxation, page 21.
§ Taussig: Principles of Economics, Volume II, page 535.
‖ Shah: Sixty years of Indian Finance, page 325.

143 As regards the smaller proprietors, is the difficulty described in the following passage one peculiar to India?

"There could be no great objection to the Succession Duty, if very small properties are exempted, say, those under Rs. 5,000 value. There is, however, the plea, urged long ago by Sir James Stephen, that a succession duty in India would operate most inequitably as, under the system of joint family and joint ownership in the family property, the demise of the head of the family in most instances would be an occasion, not of additional strength to the survivors, but rather of weakness, owing to the earning member of the family being cut off, and the consequent difficulty of making the property pay. As far as this argument affects the case of small proprietors, it is unanswerable". *

144. Presumably payment would be enforced primarily by invalidating transfers of property by persons who had not secured probate or a succession certificate. Would it be practicable to enforce it in the case of moveable property other than stocks and shares? How could a valuation of other property be secured?

145 If you agree that the tax should be centrally controlled, what is the most appropriate agency for levying it.

146 The tax in England is levied on all estates in excess of £100. What would in your opinion be an appropriate exemption limit in the case of India?

Division of the Proceeds

147. A memorandum is attached as Annexure Q in which the law and practice of Federal States in other parts of the world in respect of the division of taxes between the Federal and State Governments is stated. A leading writer sums up the possible plans under the following heads and recommends a combination of the second, third and fourth †. Do you consider that this offers a suitable basis for a theoretically correct distribution?

(1) The taxes are assessed by local authorities with additions for the use of the Central Government.

(2) The tax is assessed by the Central authority with additions for local purposes.

(3) The separation of the sources of revenue, that is, certain taxes are utilised for central and others for local purposes.

(4) The division of the yield; that is, the revenues are collected by the Central authorities, but a portion of the yield is assigned to the localities.

(5) The system of subventions or payments from the Central to the Local Governments or from the Local to the Central Government.

148 When the Federal Government of the United States was dependent almost entirely upon the customs revenue, it was found that it was faced with "the dreary alternative of embarrassing surplus and embarrassing deficit".‡ Is there a danger of a similar result arising out of the fact that the revenues of the Central Government in India are largely dependent on fluctuations in trade?

149 Is the present division, which proceeds entirely upon the basis of separation of sources, equitable as between provinces that are mainly commercial and mainly agricultural, respectively?

150. Is it practicable to arrive at a more satisfactory distribution by broadening the basis of division under such a combination of methods as is above suggested?

151 To take the question of separation of sources first, do you consider that the difference of systems and the close connection of the land revenue administration with the general administrative arrangements make it essential that the land revenue should continue to be a provincial source of revenue?

Shah: Sixty years of Indian Finance, page 329

‡ Seligman Essays in Taxation, pages 663 *et seq*

† Bullock Selected Readings in Public Finance, page 722

152 * "First among taxes naturally and almost necessarily national are taxes on exports and imports, based upon international trade and national markets and for this reason national in character"

Do you accept the above reasoning?

153 When export duties are levied on goods that can be identified as the produce of a particular province, do you consider that there is a case for allotting them to the province concerned?

154. Do similar considerations obtain in relation to excise? The Indian excise system is peculiar in so far as the policy pursued of raising the duties as high as they will go without giving rise to uncontrollable illicit practices has led to the imposition of a large variety of different rates on country spirits. The rates in the case of locally-made foreign liquor, opium and hemp drugs, however, tend to equality. Would you advocate the reservation to the Central Government of a basic rate in each case subject to the right of the Local Governments to add a provincial rate and to retain the proceeds of the privilege of vend?

155 If tobacco were made subject to taxation, would you treat it in the same way?

156 Income-tax and succession duties are generally regarded as taxes that must be levied at uniform rates and centrally administered, because businesses are not confined to single States, while varying rates are apt to cause transfers of business to the localities where the tax is lightest Do you accept this reasoning? Do you consider that a division of the proceeds is practicable? If so, on what principle should it be based?

157 Do similar considerations apply to duties on transactions levied through stamp duties? Would you draw a distinction in this case between judicial and non judicial stamps?

158 Are there any other taxes to which you would apply any of the three principles mentioned above?

159 If you do not accept these principles, on what other lines of division would you proceed?

160 Do you agree that local bodies "should rely primarily upon revenues referable to the principle of benefits, such as special assessments and fees of all kinds, . upon the tax on real estate and especially upon land taxes, and so far as further revenues are needed upon additions to the income-tax,"† which might take the form of a business or profession tax?

161 Is the present system under which the District Boards rely principally upon surcharges upon the land revenue or a corresponding charge on annual value satisfactory? Should any limit be imposed by law upon such surcharges?

162 In most states, the Central, Provincial and Local Governments are not allowed to tax the property or transactions of one another Should this principle be applied to India? If not, can you distinguish any principles which should regulate such taxation?

Machinery of Taxation.

163 "There are certain cases in which an agency of whatever nature by which a service is performed is certain, from the nature of the case, to be virtually single, in which a practical monopoly, with all the power it confers of taxing the community, cannot be prevented from existing"‡ These considerations apply to the Post Office, Telegraphs, Telephones, Irrigation, Electric Power, Water Supply, Drainage, Gas and Electric Lighting Do you advocate State enterprise with the attendant power of taxation in such cases?

164 The services which are or have been monopolised in other countries include pawn shops and life insurance Would you support monopolies of any such services in India?

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* American Economic Association—Report of the Committee on Co-ordination in Taxation, 1919.

† Seligman: Essays in Taxation, page 677

‡ Mill: Principles of Political Economy, Book V., Chapter XI, paragraph 11.

165. Another class of monopolies consists of monopolies of articles, the production or import of which is placed under State control for the purpose of regulation Of these Bastable writes as follows —

"To place the manufacture of an article in the hands of the State is a strong measure, to be justified only by very cogent reasons, but where the need of revenue is great, this sacrifice of a particular business to secure complete freedom for the others may be desirable. It cannot be disposed of by an appeal to the principle of non-interference as a rule peremptorily binding on the State. The real point to be aimed at is to secure the needed revenue with the smallest amount of restriction, a result sometimes best attained through monopoly."* Annexure R gives a list of articles in respect of which monopolies are in force in different countries Do you approve of the principle of monopoly in the case of any of these articles?

166 The present administration of salt, opium and hemp drugs in India is based largely on monopoly, while in the case of spirits, a monopoly of wholesale supply is given where the contract supply system is in force Would you recommend any extension of these features of the system?

167 The following statement sums up the result of experience in the United States of America —

"Conditions of administration are about as important as the rate of taxation in determining the success or failure of property and income taxes Under a purely local system of administration there never was and never will be a generally satisfactory assessment of either income or property, for reasons perfectly familiar to us all Central control of the process of assessment is necessary for the successful operation of either a property or an income-tax, and hardly more so for the one than for the other "†

Do you think it is applicable *mutatis mutandis* to conditions in India?

168 In the last century practically all taxation functions were combined over a large part of India in the hands of the Land Revenue staff. Owing to the advance of specialisation this staff now conducts very few such functions other than those directly connected with the land Are there any other taxation functions which they could now undertake? If not, is the staff excessive for its present duties?

169 Prior to the Reforms combined staffs were employed on the administration of taxes which are now controlled by different Governments, as in the case of Salt and Excise Has the breaking up of these establishments resulted in any decrease in efficiency or increase in expense? Is any new combination possible for instance, as between the staff responsible for Salt, Customs and minor ports?

170 Do any proposals for similar combinations arise from suggestions you may have made in respect of the questions relating to the central administration and division of taxes?

171 Mr Adams‡ wrote in relation to the Wisconsin income tax "The greatest need of the tax system was a set of officers not dependent for the retention of their offices upon the favour of the people whom they assess In Switzerland most of the cantons have provision for the revision of assessments by a special authority In France§ all appointments are vested in the Prefect subject to rules fixed by general statute Even the officer who administers the octroi in a municipality is not appointed by the municipal authority Similar central control is imposed over the local administrations in Germany Does your experience of administration of taxes by authorities subordinate to popular bodies confirm the experience of these democratic countries in regard to the desirability of independence of electorates and central control?

* Bastable. Public Finance, page 5[illegible]

† Bullock: Selected Readings in Public Finance, page [illegible]

‡ Bullock - Selected Readings in Public Finance, page 411

§ Poincaré How France is Governed page 66

‖ Bullock Selected Readings in Public Finance, page [illegible]

ANNEXURE A (Question 1.)

I.—Agricultural Statistics

(a) *General.*

Statistics of area and yield of the principal crops for every year are published by the Commercial Intelligence Department in the 'Estimates of Area and Yield of Principal Crops of India', tables 4 to 17 Figures of area under cultivation for both these and the remaining crops are published annually under the title of 'Agricultural Statistics of India'

2 Three factors go to make up the estimates :—

(i) the estimate of areas sown,
(ii) the estimate of normal crop, and
(iii) the estimate of the crop for the year in terms of the normal crop

3 The estimate of areas sown is based in the greater part of Madras, Bombay and Sind, the United Provinces, the Punjab, the Central Provinces and Berar, the North-West Frontier Province, Burma and Assam on cadastral survey maps and the reports of village officials as to the areas sown with the principal crops These reports are in the majority of cases subjected to a certain amount of check by superior officers In the Punjab and Burma the areas are based on the survey figures only in the districts in which the main crops are largely grown, for the other districts the figures are based on rough estimates prepared by the Directors of Agriculture

4 In Bengal, Bihar and Orissa, about one third of Madras, the hill tracts of the United Provinces, and Assam there is no accurate survey or reliable village staff In the first two areas the figures are supplied by the village policemen to the police stations, in the others the estimate is based on the previous years' figures the state of the seasons and the figures for neighbouring areas

5 As regards the estimate of normal outturn, there is no universal meaning attached to this term which is variously interpreted as the most general recurring crop, the typical crop of the area, the just return to the cultivator, the return under normal rainfall or the average over a series of years The standard is fixed in Madras, the United Provinces, Bengal, the Central Provinces, Burma, Assam, and the North West Frontier Province on crop cutting experiments, which are made from year to year and reviewed every five years The last quinquennial report, published in 1924, shows that the results of the experiments from 1916-17 to 1921 22 were far from reliable In Bombay the standard is based on local estimates of average yield and in Bihar on local information

6 The estimate of outturn is made by the village officers, who report the crop of the year as representing so many annas more or less than the standard These estimates are the purest guesswork, and experience shows that the most expert officers are liable to be greatly mistaken in making estimates of the kind These estimates have again to be corrected owing to the fact that the number of annas taken as the normal crop is not the same in all areas To correct this error the normal is taken as a hundred and the estimate is converted into a percentage of this figure This percentage, multiplied by the area, multiplied by the normal outturn, gives the estimate of the yield. The inaccuracy of the method pursued may be illustrated by the fact that in the province of Bihar and Orissa it was found that the yield was higher than in the adjoining provinces. When, however, the Bihar Government examined its method of compilation, it was found that the yield was really 30 per cent less than what had been reported The mercantile community places little confidence in these statistics In one province they are reported to add 25 per cent. before utilising them

7. The following are two authoritative criticisms of these figures. A Resolution of the Government of India in the Finance Department of the 24th October 1914, says :—

"For the immense areas of Bengal, Bihar and Orissa, for about one third of the Madras Presidency, for the hill tracts in the United Provinces and in Assam—and, it may be added, for the Native States, which, though excluded

by Mr. Datta, cannot legitimately be ruled out of account—neither the area under cultivation nor the area under food grains is known with any accuracy; and for such areas Mr Datta had no alternative but to base his statistics of cultivation on more or less arbitrary assumptions. Further, attempts to estimate the total outturn of agricultural produce, even when the area is definitely ascertainable, are beset with insuperable difficulties The normal yields per acre, the foundation of all such estimates, are notoriously untrustworthy. *These yields have been revised from time to time* There has been some revision even since Mr Datta's report was written, but the figures are still far from satisfactory. The remaining factor in the calculation, the percentage of the yearly outturn to the normal, is a still more uncertain quantity, resting as it does on district returns, which are little more than loose conjectures, vitiated in particular by a distinct bias in the direction of under-estimation. Finally the whole mass of material, comprising elements of every degree of validity, has to be reduced by a complicated process of averaging and weighting, *and it is evident from a study of the detailed* results that here, too, considerable further difficulty has been experienced and divergent methods employed "

The Sugar Committee, which reported in 1920, made the following comments on the compilation of statistics of area and yield of sugar cane .—

"As regards the area under cultivation the Committee accept the view that figures of the area under cane are on the whole fairly accurate, except in the tracts which have a permanent settlement The area under cane in Bihar and Orissa and Bengal which stand third and fourth respectively amongst the cane growing provinces of India, is sufficiently large to make this a matter of some importance The Committee draw attention to the not infrequent discrepancies between the area under cane in each province as given in the Agricultural Statistics" volume and the same area as given in the Area and Yield' volume

"As regards the standard normal outturn, the figures given are very unsatisfactory and little reliance can be placed on them The evidence which the Committee received was by no means such as to justify the figures of yields given for certain tracts

"As regards the 'anna estimate', it is in the first instance framed in most cases by the "patwari", or village accountant, or an official of similar standing Opinion is unanimous in regard to the reliability of the estimates so framed and there is little doubt that the outturn of all crops in India is persistently under-estimated It has frequently been pointed out that the main reason for this is the ingrained pessimism of the Indian cultivator and village official, as a result of which it is very rarely that a normal crop is reported

"It is doubtful whether non-official agencies are in a position to render as great a measure of assistance in the compilation of the cane forecast as in that of other commercial crops, but effort should be made to enlist the assistance of factories and large and small landholders in the work of crop reporting "

(b) *Special Crops*

Tea—The figures of production are based in the main on reports received from the gardens Where no reports are made, estimates are sent by the local officers The prices given are those realised at the annual auction sales at Calcutta and the values declared at time of export

The Report on the Production of Tea in India (Commercial Intelligence Department) gives the following details —

	Table
(1) Area under cultivation	1
(2) Production of tea in India	2
(3) Number of persons employed on tea plantations	3
(4) Quantity of tea exported	4
(5) Average value of Indian tea sold at auction sales in Calcutta and average declared values *at time of export*	13

Cotton.—The "Estimates of Area and Yield" published annually (Commercial Intelligence Department) contain an estimate of the cotton crop for each year. This can be checked roughly by adding the amount of exports to that of the home consumption and deducting the imports. An account of the quantity consumed by the mills is published every year in the Report of the Bombay Millowners' Association and an estimate of the consumption outside the mills is made annually by the Bombay Cotton Trade Association. The annual "Review of the Trade of India" contains the statistics of imports and exports

Rubber.—A special supplement is published in "The Indian Trade Journal" under the title of "Rubber in India", and contains statistics based on data furnished by rubber planters.

Table No. 1 gives figures of area under rubber.

Table No. 2 gives statistics of the production (in lbs) of dry rubber.

Table No 3 is a detailed statement of area and production.

Table No. 5 gives statistics of raw rubber exported from British India

Jute.—Estimates of the crop are published annually in the "Area and Yield of Principal Crops".

Statistics of the consumption of jute in the mills are given on page 625 of the "Statistical Abstract of British India, 1923".

The quantity of raw jute exported is published in the "Review of the Trade of India".

The Indian Jute Mills Association publish an annual report. The report for the year 1922 gives the following statistical statements about jute —

- Statement I gives figures of local consumption of raw jute.
- Statement VII gives a comparative statement of the forecast of the jute crop and the actual consumption for the years 1892-93 to 1921-22.
- Statement XIV gives figures of cultivation and production of jute (in bales of 400 lbs) for 27 years from 1896—1922

Coffee.—Data of the area under coffee and the production of the same are given in the 'Agricultural Statistics' and in tables 1—3 in the supplement on coffee to the "Indian Trade Journal." This supplement also gives the figures for imports and exports The data of area and production in the supplement are compiled from the returns received from plantations in excess of 10 acres in extent

(c) *Live-stock*

The first general quinquennial census of cattle was taken in 1919 20, and it has been continued since then annually in some provinces and quinquennially in the rest The results, though better than those obtained in the earlier years, are not satisfactory, as the village authorities cannot be relied upon for anything but very rough figures Moreover, the methods of collecting the figures which do not necessarily ensure simultaneous computations in the various districts or include the animals in towns and cantonments in all cases, can lead only to approximate results.

The Agricultural Statistics of British India, Volume I, 1921-22, contain tables giving the following information :—

1. Number of cattle—(*a*) per 100 acres of area sown, (*b*) per 100 of population, province by province.
2. Number of animals of various kinds in each province for a number of years

(d) *Forests*

Statistics regarding quantity and value of forest produce are based on the Forest Administration Reports published separately by each province

Imperial Forms 19 and 20 of the Reports in the following provinces contain statistics of the total quantity and value of major produce like timber and fuel and minor produce like bamboos, grass, etc , extracted from the forest :—

(1) Bengal.

(2) North-West Frontier

(3) Baluchistan

(4) Ajmere-Merwara

The reports for the following provinces contain statistics of quantity only in case of timber and fuel, and of both quantity and value in case of minor produce as bamboos, grass, etc. —

(1) Burma—Imperial Forms 19 and 20

(2) United Provinces—Imperial Forms 19 and 20

(3) Punjab—Imperial Forms 19 and 20

(4) Bombay—Forms 63 and 64

(5) Madras—Forms 76 and 77

(6) Bihar and Orissa—Imperial Forms 19 and 20

(7) Assam—Imperial Forms 19 and 20

(8) Central Provinces—Imperial Forms 19 and 20

The above statistics refer to the forest under the Forest Authorities No statistics are available regarding the forests administered otherwise or private forests

(e) *Fisheries*

The reports of Government departments give only figures of the results of isolated experiments or of the sums realized by sale of fishery rights. The only general source of information is the census report which, however, gives only the number of people earning their living wholly by fishing in 1921 (table 19, Statistical Abstract).

II —Industrial Statistics

(a) 1 *Minerals*.—The Statistical Abstract of British India (pages 658 677) contains statistics of production and value of the following minerals and of the consumption of kerosene in India (excluding Burma) —

Salt, Coal, Gold, Petroleum, Chromite, Copper ore, Diamonds, Graphite, Iron ore, Jadestone, Lead, Magnesite, Manganese ore, Mica, Monazite, Platinum, Rubies, Sapphires, Spinels Saltpetre, Silver, Tin ore, Wolfram, Zinc ore

Other figures are available in the ' Commercial Statistics of British India ", but they are not so accurate as those in the "Statistical Abstract"

The "Records of the Geological Survey of India", Volume LIV, paragraph 2, 1922, contain the latest and more accurate statistics of the production and value of the various minerals for the years 1920 and 1921

Coal —Returns of production are sent by the Managing Agents of the mines, under the Indian Mines Act, VIII of 1901, to the Chief Inspector of Mines, who forwards them to the Commercial Intelligence Department The "Report of the Chief Inspector of Mines", 1923 (Appendix I, Table I), contains detailed statistics about these mines The figures are supplemented by the Director, Geological Survey of India, who receives returns from the local authorities and from the Political Agents regarding the non Act mines and those in the Indian States For complete figures of production reference may be made to "Mineral Production of India", published in the Record of the Geological Survey and to the "Quinquennial Review of the Mineral Production of India", published every five years by the same department, and to the "Statistical Abstract of British India' , page 658

Information regarding consumption of coal is obtained from the Railway Board, the Coal Transportation Officer, the Steamer Companies, the Port Trust,

the mill owners, factory-owners and others According to the "Commercial Statistics" the figures can be regarded only as very rough estimates (page xviii). The same opinion is expressed in the "Report on the Production and Consumption of Coal in India", 1923 (supplement to the "Indian Trade Journal")

"The Seaborne and Railborne Trade Accounts" (published by the Commercial Intelligence Department) contain figures of the import and export of coal

The value of the coal produced is reported annually by the coal-mine owners, being the value at the mouth of the pit.

The figures of capital invested in the coal industry can be found in the Report of the Registrar of Joint Stock Companies

The "Commercial Statistics of British India" contain among other things, the following information about the coal industry :—

	Table
(1) The average value per ton of coal extracted from the mines in India	32
(2) The average price per ton of Indian and Welsh coal at the ports of Calcutta, Bombay and Karachi	33
(3) The average number of persons employed daily in the coal mining industry in India	31
(4) The quantity and value of the imports of foreign coal	35
(5) Quantity of Indian coal exported . . .	36
(6) The consumption of coal in India . .	42

2 *Cotton Mills*—The Bombay Millowners' Association Report, 1922, contains statistics regarding the following features of the cotton industry :—

	Page
(1) Production and export of yarn . .	3
(2) Consumption of cotton in the mills . .	5
(3) Quantity and counts of yarn spun .	133—140
(4) Quantity and description of woven goods	141—149

The "Commercial Statistics of British India" contain statistics regarding the following features of the industry :—

Table 12—(*a*) Number of mills in existence
(*b*) Authorised capital
(*c*) Persons employed.
(*d*) Looms and spindles

Table 19—Statistics of excise duty realised from goods woven in the cotton mills under the Cotton Duties Act, II of 1896—These are compiled from special official returns which as regards the production of yarn and woven goods are based on returns made by the millowners under the above Act

The amount of capital invested in the cotton mills is available in the "Report of the Registrar of Joint Stock Companies," 1921-22 (Table 4)

3. *Jute Mills*—The "Commercial Statistics of British India" contain statistics regarding the following features of the jute industry which are compiled from special returns received from local authorities and also from returns received direct from the managing agents of the mills

Table 20—(*a*) Number of mills
(*b*) Authorised capital.
(*c*) Paid up capital.
(*d*) Persons employed.
(*e*) Looms and spindles.

The figures of consumption of jute in mills are published in the "Statistical Abstract of India"—page 625

The Indian Jute Mills Association's report contains the following tables:—

Statement XII gives movement of jute manufactures

Statement XIII gives jute mills in India.

Statement XVIII gives the actual clearances of gunny cloth from Calcutta.

Statement XIX gives the actual clearances of jute fabrics from Calcutta.

4 *Breweries and Distilleries*—

Distilleries.

Number of private distilleries—This is given in Imperial Return No III in the Reports on the Excise Administration of the various provinces and also on page 631 of the Statistical Abstract for British India (Table 310)

The total issues from distilleries—The number of proof gallons issued from the distilleries is given in Imperial Return No IV in the Reports on the Excise Administration of the various Provinces

Breweries

Number of Breweries—This is given in Imperial Return No III in the Reports on the Excise Administration of the various provinces and also on page 631 of the Statistical Abstract for British India (Table 310)

Production in gallons—This is given in Table 309 on page 627 of the Statistical Abstract for British India

5 *Salt*—Besides the Administration Reports of the provincial Salt Departments there is also a consolidated report for the provinces in Northern India issued by the Northern India Salt Revenue Department

Statistical data concerning salt are also given in the Statistical Abstract for British India and in the 'Salt' supplements issued with the Indian Trade Journal

The quantity and value of salt produced in India are given in Table 72 on page 144 of the Statistical Abstract for British India

Table 73 (pages 147-151) in the Statistical Abstract gives the amount of Salt revenue and charges for the various provinces for the years 1910-11 to 1920-21 The salt available for consumption in the various provinces is given in Table 74 (on pages 150-151) of the Statistical Abstract for 1911—1921 The quantity of salt sold in each province is given in Table 75 (on pages 152 153) of the Statistical Abstract for the years 1911—1921

Rate (per maund) of duty and selling price of salt—This is given in Table 76 (on pages 154 155) of the Statistical Abstract

Salt Statistics' supplement to the Indian Trade Journal 1st February 1923—In this supplement the issues, imports exports and movements of salt in India are given for all the provinces in India for the years 1911—1922

(b) Statistics of minor industries

An estimate of the production of cotton cloth by handloom weavers—An estimate of the production of cotton cloth by handloom weavers is made in paragraphs 8 to 13 (pages 94-95) and is illustrated in 6 statements (pages 95—101) in Appendix I in the Appendices volume to the Report of the Indian Industrial Commission

The method adopted may be expressed in the following terms —

Yarn imported *plus* yarn produced in Indian mills *minus* yarn exported *plus* yarn consumed by Indian mills *is equal to* yarn available for handloom weavers

(c) Returns of Companies floated

Joint stock companies.—Statistics are compiled from the reports and returns prepared by the Registrars of Joint Stock Companies under the Indian Companies Act, the Indian Life Assurance Companies Act and the Provincial Insurance Societies Act, and in some Indian States, under their respective Acts

The annual "Report on Joint Stock Companies" 1921-22 (Commercial Intelligence Department) contains the following statistics :—

Table I.—Number of companies working in India and their authorised and paid-up capital

Tables 4 and 4-A.—Number and paid-up capital of companies of each class at work in India from 1897 to 1922

Table 5.—Number, description and capital of new companies registered.

Table 7.—Number, description and capital of companies incorporated elsewhere than in India, but working in India

(d) Statistics of Trade

Imports.—The value of imports of private merchandise into British India by sea is given in Table 215 of the Statistical Abstract for British India

Table 218 of the Statistical Abstract gives information about the quantity of imports of principal articles

Table 4 (page 4) of the "Review of the Trade of India" gives the value of imports

Exports.—The quantity of exports of principal articles of Indian produce and manufactures is given in Table 222 of the Statistical Abstract, the value of exports is given in Table 221.

The quantity and value of principal articles of exports arranged in the order of their importance is given in Table 7 on page 45—"Review of the Trade of India".

Railways.—The "Statistical Abstract of British India", Table 202, gives numbers of passengers conveyed on the several railway systems in India

Particulars about quantity of goods and minerals conveyed by the several railways is given in Table 203, details of gross earnings are shown in Table 204 and Table 205 contains details of working expenses. The net earnings of the several railways are given in Table 206

The return of Inland Trade has been discontinued since 1921 22.

III.—Statistics of Prices.

The following are the principal statistics published :—

I. Fortnightly return of wholesale prices of 30 articles at 68 principal markets published in the "Gazette of India."

II. Fortnightly return of retail prices of food grains and salt at district headquarters published in Provincial Gazettes.

III. Return of average annual wholesale prices of 25 articles in 92 principal markets published in 'Prices and Wages of India'

IV. Return of prices of staple articles of import at Calcutta and Bombay and of staple articles of export at the five main ports published in the 'Prices and Wages of India.'

V. Return of average annual retail prices of food grains and salt at 23 selected markets published in the "Prices and Wages of India"

The figures are collected in Madras and Bombay by clerks in the offices of the officers in charge of Tahsils, in the Central Provinces by the Kanungo, an intermediary between the Tahsil and the village officer, in the United Provinces, Punjab and Burma by Bazaar Chaudhris and in Bengal and Bihar, where there are no Tahsil officers, by petty subordinates

There are many difficulties attending the collection It is impossible to secure anything like uniformity in reporting on such an article as 'best rice' or 'second quality rice' at a great variety of different times and places; the measures in use vary from place to place, and errors are frequently made in converting them to standard; there are sometimes reasons personal to the reporting officer which affect the report, as when the return regulates the price to be paid for carts or to be received in the shape of compensation for dearness of grain and there is sometimes a reluctance to make a change, as when a Tahsildar explained a totally incorrect entry by saying that the figure had remained unchanged for eight years and that he did not feel justified in altering it

It is not surprising in these circumstances that the figures will not bear the test of comparison with those for neighbouring districts or of the returns of wholesale with those for retail price

From a statement furnished by the Director-General of Commercial Intelligence it was calculated that between 1897 and 1910 the retail prices of rice given in the 'Prices and Wages of India' were actually lower than the wholesale prices for the same place on 90 occasions, that is to say, 18 per cent. of the total quotations; for wheat on 105 occasions, i e., 22 per cent, for barley on 83 occasions, i e, 33 per cent, for jowar on 180 occasions, i e, 33 per cent, for bajra on 111 occasions, or 30 per cent, for ragi on 39 occasions, i e, 31 per cent, for maize in 105 cases, i e, 38 per cent, for gram in 106 cases, i e 25 per cent for arhar dal in 83 cases, i e, 20 per cent

The Indian Sugar Committee commented on these returns in the following terms.—

"As regards the statistics of prices, the Committee hold that they were completely unreliable The unreliability of prices returned may be gauged from the fact that at Meerut the prices of sugar show an increase of 200 per cent in 1908 over 1907 The difference between wholesale prices of imported sugar in the same two years as recorded in the much more reliable Table 5 is less than 10 per cent at Calcutta and 8 per cent at Bombay Either the official figures are, therefore, wrong, or they refer to quite different things The two main defects of price statistics are —

(i) Sufficient care is not taken to see that the figures returned accord with even approximate accuracy to the facts.

(ii) No care is taken to ascertain the exact nature and quality of the products to which the reported facts relate The result consequently is confusion and inaccuracy

IV —Statistics of Income

(a) Income-tax Statistics

Amount of Taxes on Income and charges—This is given in Table 87 (pages 178 79) for the various provinces for the years 1911-21 in the Statistical Abstract for British India

Details of Taxes on Income—This is given in Table 88 (on page 180) for the period 1911-21 in the Statistical Abstract

Classification of the grades of Income-tax collected in the various provinces and the number of assessees in each grade—This is given in Return No IV of the Report on the Income-Tax Administration of the various provinces Return No V in those reports gives the same particulars for Super-tax

Up till the year 1916-17 these returns showed also the trades and professions of the assessees in each grade Since 1917-18 these particulars have been discontinued

(b) Statistics of Wage Earners

The statistical data about wages given in tables 19 22 of the 'Prices and Wages' in India were up to 1921 22 compiled from half-yearly returns received from certain Indian States and Baluchistan, from annual returns received from the Central Provinces, the Post Office, the State Railways, and certain workshops, business establishments, collieries and mills, and from the reports of the Quinquennial Wage Census held in the other Provinces

Table 19 gives the range of the monthly wages of able-bodied agricultural labourers, syces and village artisans in Baluchistan and certain Indian States

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Table 19 gives the range of the monthly wages of able-bodied agricultural labourers, syces and village artisans in Baluchistan and certain Indian States.

Table 20 gives the range of the wages for skilled and unskilled labourers in urban and rural areas of the Central Provinces

Table 21 gives the range of wages of skilled and unskilled labourers in the urban and rural areas of the other provinces as reported in the Provincial Wage Censuses of 1911 and 1916.

Table 22 gives the range of wages for the following:—Postmen and postal runners, the employees in some railways, the skilled and unskilled labourers engaged on the Orissa Canals, the skilled and unskilled labourers in a paper mill in Bengal, at the Murree Brewery, the employees of B. I. S. N. Company at Calcutta and Bombay, at the collieries in Bengal, at an Engineering workshop in Meerut, at the Army Boot Factory, Cawnpore, in the Petit Cotton Mills, Bombay, in the cotton mills managed by Messrs Binny and Company, Madras, at the Salonah Tea Plantation, Assam, in some other tea gardens of Assam, in a jute mill in Bengal and in a rice mill at Rangoon.

The statistics given in some of these tables were found to be so unreliable that the compilation was abandoned after 1921-22. A proposal was then made to conduct a wages census either upon the basis of mass production or on that of family budgets. After considerable discussion, however, this proposal was also abandoned as impracticable without expenditure that was at the time out of the question, and the actual outcome has been a few isolated compilations of family budgets. It was also held that it was impossible to secure these figures without legislation, and a Bill on the subject is now before the Bombay Legislative Council.

V.—Vital Statistics

Tables 182 to 198, pages 372 to 420, Statistical Abstract for British India from 1911-12 to 1920-21, show the births and deaths in the various provinces according to sex, town and country and community and cause of deaths, the number of deaths from plague, the number of hospitals and dispensaries and the numbers of lunatics.

The following observations are made in paragraph 12 on page 14 of the Census of India (Volume I, Part I) about the Vital Statistics collected in India:—

"The cumulative effect of the various health factors on the vitality of the population is shown in the variations of the birth and death-rates, but before making a use of the recorded vital statistics it will be well to form some estimate of the accuracy and value of the records. The registration of vital statistics is established throughout British India except in the more remote and backward tracts. The system of collection differs in detail in different provinces. It is usually based on information of births and deaths recorded in the village (often by the headman of the village) and passed on periodically to some local authority, usually the police by whom registers are maintained. Extracts from these registers are sent to the local officer who is responsible for the records of public health, and by whom they are compiled for the district and so eventually for the province. The information includes particulars of the births, including stillbirths, and death by sex and religion and the classification of the deaths under certain categories of age and of disease. The records both in the villages and in the local offices are periodically checked by touring officers of various departments. In municipal towns the registration of vital occurrences by the house-holder is usually compulsory by law, and the registers are maintained by the municipal authority. Owing chiefly to carelessness in administration, the standard of accuracy is probably not as high in the towns as in the rural areas.

"As a result of the various tests which have been made and of the general experience of those who are in the best position to estimate the value of these records, the following propositions may perhaps be accepted:—

(1) In rural areas the omissions in the record of numbers vary up to about 20 per cent.

(2) The record of births is normally less accurate than that of deaths.

(3) In urban areas the standard of accuracy varies greatly according to the attention given by the local authorities. It is usually lower than in rural areas, but it has been considerably improved of recent years, e.g., in Poona and Ahmednagar.

(4) The records of the causes of mortality are defective Plague, cholera and small-pox are now often fairly correctly recorded when the epidemic is established. Other distinctions (e g , deaths from respiratory diseases) are sometimes roughly made, but the bulk of deaths, the specific cause of which is not recognised locally, are ascribed to "fever". Age categories are, outside a certain limit, a matter of guess work, but the errors are probably of the same kind as those in the census tables

(5) Except for progressive improvement in urban areas and occasional break-downs during epidemics the errors are more or less constant from year to year "

ANNEXURE B (Question 2)

List of estimates of wealth and income of India

Name of Publication	Area dealt with	The year for which the estimate was made	Total income in crores of rupees.	Income per capita in rupees.
			Rs	Rs.
1 Poverty and Un-British Rule in India by Dadabhai Naoroji (1871)	British India	1867—1868	340	20
2 Financial Statement for 1882 .	Ditto .	1881	525	27
3 'Prosperous British India' by William Digby 1901	Ditto .	1898	429	17 5
4 Financial Statement for 1901-02 (His Excellency Lord Curzon's Speech on the Budget)	Ditto	1901	675	30
5 'Industrial Decline of India' by Dr Balkrishna (1917	Whole of India	1911—1912	(a)1 078 (b)539 (c)431 2	 21 16 5
6. 'The Wealth of India' by Professors P A Wadia and G N. Joshi (1924)	British India .	1913—1914	1,210	44
7 'Happy India' by Arnold Lupton (1922)	Ditto	1919—1920	2,854 5	114
8 'Wealth and Taxable Capacity of India' by Professor K T Shah and Mr K J Khambata (1924)	Whole of India	1900—1914* 1914—1922* 1900—1922* 1921—1922	1,106 1 8'2 1,380 2 364	36 58 5 44 5 74
9 'The Science of Public Finance' by Findlay Shirras (1921)	British India	1921 1922	2 598 2 866	107 116
10 Dr Slater's Estimate, 1922†	Madras Presidency	1919—1920	(d)434 (e)475	102 112

*Annual averages

†Issued ... tr Office, Madras, and later published in the

... gross value for cost of production

(d) The non-agricultural income being taken at 40 per cent of that from agriculture ... non-agricultural occu-

... of that from agricul- ... ve calculated it at that rate

ANNEXURE C. (Question 8)

LIST OF INTENSIVE ENQUIRIES INTO INCOMES OF PARTICULAR CLASSES

I.—Workers generally—

MADRAS.—Mr Gray's report on statistics of wages.

BOMBAY.—Mr. Shirras's report on working class budgets.

Appendix W to the Bombay Census Report, 1921, containing 6,000 family budgets.

BURMA.—Mr. Graham's note on the occupations in the Mandalay district in the 1921 Census Report.

BIHAR.—Family budgets collected by members of the Patna College Chanakya Society, 1910-13.

ASSAM.—Family budgets of different classes collected at the Census (1921).

BALUCHISTAN.—Family budgets collected at the Census (1921)

II.—Agriculturists—

MADRAS.—Settlement reports of Bellary and Tanjore.

Rural Economics—Sir A. P. Patro

'Some South Indian Villages'—Slater.

'Economics of a Coimbatore Village'—Article in Madras Agricultural Students' Journal.

BOMBAY.—Settlement reports.

Decennial reports on economic progress in rural areas

"Agricultural Progress in Western India"—Keatinge.

'Rural Economy in the Bombay Deccan'—Keatinge

Social and Economic Survey of a Konkan Village'—Ranade

"Land and Labour in a Deccan Village"—Mann

Report on the economic condition of certain villages in Sholapur and East Khandesh by the Mamlatdar of Co-operative Societies.

Report of the Konkan Co-operative Enquiry Committee.

Enquiry into agricultural wages—Shirras.

Report of the Pardi Economic Enquiry Committee.

BENGAL.—Settlement reports of Faridpur, Mymensingh, Midnapur, Dacca, Backerganj and Rajshahi.

'Economic Life of a Bengal District'—Jack.

Enquiry into the family budgets of agriculturists, now being conducted by the Co-operative Department.

THE UNITED PROVINCES.—Settlement reports of Muzaffarnagar, Bulandshahr, Shaharanpur, Etawah, Fatehpur, Allahabad, Basti and Gorakhpur.

Article in the Indian Economic Journal by Mr. Dubey on the Food Problem (Vol. III, Part I).

PUNJAB.—Settlement reports

Report on the Economic Survey of Bairampur—Hoshiarpur District

'The Land of the Five Rivers.'

'Wealth and Welfare of the Punjab'—Calvert.

Articles in the Indian Economic Journal by Mr Darling on the Rise in the rural standard of living in the Punjab (Vol. V, Part I, pages 1—19)

Also on Prosperity and Debt in the Punjab (Vol III, Part 2)

'Economic Life of a Punjab Village'—Dr. Lucas.

'Enquiry into Agricultural Mortgages'—Calvert.

Reports of the Punjab Economic Enquiry Board.

'Punjab Food Prices'—Prof Myles.

BURMA.—Settlement reports.

Memorandum on the Material Condition of the People of Burma from 1912 to 1922.

Report on Indebtedness in the Irrawaddy Division by Mr Clayton.

Report of an Inquiry into the Condition of Agricultural Tenants and Labourers by Mr. Couper

BIHAR —Settlement reports

CENTRAL PROVINCES.—Settlement reports

Enquiries into Agricultural Incomes by Deputy Directors of Agriculture

ASSAM —Settlement reports

Report of Special Enquiry into the Hailakandi Flood Area

III.—Industrial Labour—

INDIA—GENERAL—' Indian Labour '—Dr Broughton, ' Labour in India '—Miss Kellman.

' Factory Labour in India '—Dr. Rajanikanta Das

MADRAS —Annual reports of the Commissioner of Labour

Wages Census by the Commissioner of Labour

BOMBAY.—Enquiry into the wages of Cotton Mill workers—Shirras

BURMA.—Note on the Rice Mill industry

IV —Middle Classes—

MADRAS —Report of Salaries Committee

BENGAL.—Report of Bengal Unemployment Committee

PUNJAB —Family budgets of clerks—Mrs Caleb

BURMA —Mr McCallum's Report on Local Allowances.

V.—Tea Garden Labourers—

ASSAM —Report of the Assam Labour Enquiry Committee

ANNEXURE D (QUESTION 21)

Adam Smith —"As he (the consumer) is at liberty too, either to buy or not to buy, as he pleases, it must be his own fault if he ever suffers any inconvenience from such taxes"

Decker proposed a scheme for raising all the revenue by a single tax on luxuries, of which he said —"All persons tax themselves voluntarily, than which nothing can be easier or more equal, and an easy way of raising taxes will always produce the most money and the fewest murmurs"

Hume —"The best taxes are such as are levied upon consumptions, especially those of luxury; because such taxes are least felt by the people They seem, in some measure, voluntary, since a man may choose how far he will use the commodity which is taxed"

Bentham —"To an indirect tax each man pays no more than he pleases . . . To a direct tax each man pays what the imposer of taxes pleases. * * * * Indirect taxation, as far as it will go, is therefore preferable to direct"

Dingley —"We have refrained from putting a tax in a direction where it would be purely upon consumption, unless the consumption was of an article of voluntary consumption, so that the consumer might regulate his own tax, following what is the accepted rule of taxation in all countries"

Harold Cox —"Indirect taxation is to a large extent voluntary."

Armitage Smith —"Such taxes become in a sense optional, since any one may refrain from consuming a taxed luxury"

Mill said that Adam Smith's statement was grounded on a fallacy because it involves "a sacrifice of his (the tax-payer's) own indulgences which would equally make up to him for the same amount taken from him by direct taxation"

Boncard and Jèze.—"It would be just as true to say that taxes on land are not compulsory, since it is open to the owner of an estate to cease to be owner".

Bastable.—"A citizen can indeed escape a wine duty by not consuming wine That course, however, has the double disadvantage of depriving the State of revenue and of diminishing his enjoyments"

ANNEXURE E (Question 33)

Income-tax and Super-tax.

Income in sterling	Percentage of income taken in Taxation.				
	England (a)	England (b)	India.	Austria	France. (c)
50	.			1 1	.
100	..	...	.	2 2	5
135	.	...	2 6	2 2	9
150		1 2	2·6	3 3	1 0
300	.	6 8	2 6	4 4	1 8
500	3 3	12 5	3 12	5 7	4 4
1,000	10 8	15 8	4 7	10 8	7 5
2,000	17 0	22 7	7 8	18 9	12 5
5,000	28	30 8	11 5	28 4	20 5
10,000	38	39	14 6	37 8	34 0
50,000	50	50	32 9	47 1	47 0
100,000	52	52	39 9	48 2	48 5

(a) Tax for a married man with three children, with income all "earned"
(b) Tax for bachelor with income all "investment"
(c) Tax for a bachelor reckoned at current rates of exchange.

ANNEXURE F. (Question 40)

Income tax exemption limits.

United Kingdom—The personal allowance is £135 for a single person and £225 for a married couple

France—For the schedular taxes the exemption limit varies from 1,500 francs for craftsmen, hawkers and fishermen to 6,000 francs for professional earnings, salaries and wages. It also varies according to the locality, the limit being higher in Paris than in the country

For the supplementary tax the limit is 6,000 francs

Belgium—The limit is 1,400 fr, if the income is earned, but persons below the limit pay a fixed tax of 12 francs a year. For the supplementary tax the limit is 2 100 fr.

Holland—800 Florins=£66

Denmark—1,600 Krone (£64) in Copenhagen, 1 400 in other towns and 1,200 in the country.

Austria—About £42.

Italy—1,200 lire (£48 at par of exchange) or £12 at present rates

ANNEXURE G (Question 53)

Rates of Salt Taxation abroad

For the monopoly countries the rates of taxation are not available The following figures have been obtained by dividing the net profit of the monopoly by the population—

Italy	Rs 1-11-0 a head per annum
Czecho-Slovakia	Rs 1-14-0 ,, ,,
Austria	Rs 2-12 0 ,, ,,
Hungary	Rs 1-4-0 ,, ,,
Japan	Re 0-4-0 ,, ,,

(Figures based on par of exchange.)

France	10 fr. per 100 kilogrammes = Rs 2-3 3 a maund.
Greece	25 lepta per ocque = Rs 5-0-0 a maund
Switzerland	Figures not available
Germany	Figures not available

ANNEXURE G (1) (Question 60)

French arrangements for denaturation of salt

Agricultural salt—Salt required for cattle food, preparation of manure or improvement of the soil is free of tax if it has been denatured by one of the prescribed methods Salt must be sent to authorized depôts Farmers can only receive direct from the place of production new salt denatured or impure salt undenatured, subject to the condition that the latter will be denatured by a prescribed process For the denaturing of new salt for agricultural purposes, 26 formulæ are recognized Of these the following are a selection —

For new salt—

1. Oilcake	200	kilos to 1,000 kilos of salt
2. Red peroxide of iron	5	
Oilcake	100	,, ,,
3. Slaked lime	250	,, ,,
4 Plaster	60	
Faeces or manure	100	,, ,,

For impure salt—

1 Faeces, soil or manure	100	kilos to 100 kilos of salt
2 Moist manure	75	
Earth	125	,, ,,
3 Bran (moist) chaff or chopped straw	100	,, ,,

Processes authorized for new salt may be used for impure salt, but not *vice versa*. Salt for use in agriculture must consist of crystals that will not pass through a sieve of No 5 gauge

Denaturation must always be conducted under supervision at the cost of the persons interested It must be done at certain specified places such as salt factories and customs houses, but special depôts may be authorised and farmers may receive undenatured impure salt on condition that it is denatured on arrival In that case it is moved under permit

There are two kinds of depôts—(1) those for the receipt of new salt to be denatured, (2) those for salt already denatured These are under bond Salt can only be taken to these depôts under permit The depôts can only deliver salt to farmers and the latter must produce the certificate of the municipal

authorities as to their occupation, and as to the quantity of salt which they can reasonably require. Provisions exist for watching the transit of the denatured salt to the consignee, and for the taking of samples of the salt denatured at the depôt

Industrial Salt—Salt for industrial purposes is also allowed duty-free, if denatured Save by special permission only crystals measuring not more than 3 millimetres may be used The place from which each industry may receive salt is specified Transport must be under seal and by permit and denaturing must take place in the presence of an officer of the department, at the expense of the manufacturer Provision also exists for the taking of samples and the inspection of the premises where manufacture and denaturing take place *Deficiencies in stock are liable to duty Certain industries may receive salt* on condition that they denature it on arrival These are given the choice of several methods of denaturation, *e g*, manufacturers of hydrochloric acid can either (1) mix 10 per cent of sulphuric acid, (2) empty the salt into sulphuric acid vats or (3) add 30 per cent of bisulphate of soda

Other industries must only receive salt already denatured There are three classes—

(1) those which may use any of the four general formulæ These are (*a*) addition of 1 per cent. of crude naphthaline, (*b*) addition of 1 per cent of refined naphthaline, (*c*) addition of 2 per cent of coal tar, (*d*) addition of 25 per cent of wood tar,

These industries comprise aluminium, cement, ink, paper, zinc, etc

(2) those industries which may use only one of the four methods which *is specified for each industry These comprise artificial ice factories,* margarine, fish curing and antimony, etc ;

(3) those industries which have their own formulæ, which are specified for each industry separately,

e g, Tanning—addition of 1 2 per cent of petroleum

Chlorate of soda—addition of bichromate of soda solution

Washing of rags for paper manufacture—addition of 33·3 per cent of slaked lime

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ANNEXURE II (Question 65)

Rates of duty per proof gallon of country spirit in force on 1st April 1923 in different Provinces.

Provinces	Rates of duties.
Madras	Rs 8-7-0 in twenty-one districts. Rs 10-10-0 in five districts From Rs 0-15-0 to Rs 6 4 0 in special localities
Bombay	Rs 2-13-0 to Rs 12 14 0, the average rate being Rs 8 7-0; the higher rates being in the city and industrial areas.
Bengal	Rs 2-4-8 to Rs 20-10 0; the higher rates being in the city and industrial areas
United Provinces	Rs 5-3-0 in the major portion of the province, a special rate of Rs. 12-4 0 in Dehra Dun and Lucknow and a few other places, and lower rates of Rs 2, Rs. 3 and Rs. 4 in a few tracts.
Burma	Rs. 1-4-0 to Rs. 13 12-0.
Assam	Rs 5-0-0.
North-West Frontier	Not manufactured in the province.
Central Provinces	Rs. 0-7-6 to Rs. 12-5-0.

ANNEXURE I. (Question 71.)

Comparative table of the rates of duty in the different provinces of India in 1922-23 for Ganja, Charas and Bhang

Province	Rates of duty per seer — Ganja.	Charas	Bhang
	Rs A P.	Rs. A. P.	Rs. A. P.
Madras	20 0 0	Not consumed	3 0 0
Bombay Presidency proper	22 8 0	50 0 0	3 0 0
Sind	20 0 0	50 0 0	2 8 0
Bengal	20 0 0	30 0 0	1 0 0
Bihar and Orissa	30 0 0	30 0 0	3 0 0
United Provinces	35 0 0	35 0 0	Acreage duty per acre 10 0 0; Transport duty per maund 20 0 0
Punjab	Not consumed	40 0 0	Acreage duty per acre 4 0 0; Import and transport duty per maund 6 0 0
Central Provinces and Berar.	25 0 0	60 0 0	0 0
Assam	20 0 0		0 8 0
North-West Frontier Province.	..	24 0 0	0 2 5

ANNEXURE J. (Question 74)

—	Burma	Assam	Bengal and Bihar and Orissa		United Provinces	Punjab	Bombay	Central Provinces	Madras
I — 1902-03									
Number of Liquor shops	1,980	293	52,022		10,519	1,451	4,001	7,246	29,105
Area per shop (in square miles)	118	180 0	5		10 1	68 8	30 4	13 8	4 9
Population per shop	5,298 3	19,940 2	2,354 1		4,407 9	13,743 8	4,673 8	1,652 1	1,911 4
			Bengal	B & O					
II — 1922-23		(1920-21)	(1920-21)					(1920-21)	
Number of Liquor shops.	1,020	336	3,038	8,197	4,087	540	2,821	4,074	16,643
Area per shop (in square miles)	220 1	157 8	[illegible]	10 1	21 3	184 9	43 8	21 5	8 5
Population per shop	12,953 1	22,637 6	12,832 0	4,148 1	9,009 8	38,305 6	6,858 6	3,115 0	2,542 7

ANNEXURE K. (Question 87)

Statement showing the transactions, etc., in connection with which taxes, fees or licenses are levied in countries other than India.

Transaction	Countries
Advertisements	Belgium, France, Germany, Italy
Armorial Bearings	United Kingdom
Auction Sales	France, Transvaal.
Banking Transactions	America, England, Japan, Switzerland.
Betting	Australia, Belgium, Canada, France, Germany, Italy, New Zealand, South Africa, Sweden.
Bicycles	Belgium, France, Greece, Italy, Switzerland.
Club Subscriptions	United States of America
Entertainments*	Australia, Austria, Belgium, Canada, Egypt, France, Germany, Italy, Japan, New Zealand, South Africa, United States of America, England.
General taxes on turnover, receipts, or sales, or on commercial or industrial transactions	American States (some), Austria, Belgium, Canada, Czecho-Slovakia, France, Germany, Hungary, Italy, Japan, Jugo-Slavia, Mexico, Philippines, Poland, Portugal, Roumania, Spain, Tanganyika.
Insurance	Argentine, Canada.
Motor cars†	Belgium, Denmark, France, Japan, Norway, Spain, Sweden, Switzerland, United States, England.
Luxuries	Czecho-Slovakia, France, Germany, Italy
Railway Travelling	America, England, Japan, Switzerland and Austria.
Safe Deposits	Spain.
Telegrams	United States.
Telephones	United States.
Tourists	France, Italy.
Transport	Germany, United States.

* A tax of this kind is levied in Bengal and Bombay.

† A tax of this kind is levied in the United Provinces and a Bill imposing one has just been passed in the Punjab

ANNEXURE L. (Question 123.)

Statement of areas under Tobacco

Province.	Total area under tobacco	Districts growing under 2,000 acres	Districts growing 2,000—5,000 acres	DISTRICTS OVER 5,000	
				District.	Area
United Provinces, 1921-22	88,882	Dehra Dun. Saharanpur Muzaffarnagar Muttra *Bijnor.* Shahjahanpur Pilibhit Etawah. Cawnpore Fatehpur Allahabad Banda Hamirpur Jhansi Jalaun Benares Mirzapur Jaunpur. Ghazipur Ballia Gorakhpur. Basti. Azamgarh. Naini Tal. Lucknow. Unao Rai Bareli. Hardoi Fyzabad Gonda. Bahraich Sultanpur. Partabgarh. Bara Banki	Meerut. Agra Mainpuri Bareilly. *Budaun* Moradabad Sitapur Kheri	Bulandshahr Aligarh . Etah . . Farrukhabad	5,233 7,081 6,263 11,654
Bihar and Orissa, 1923-24.	117,000	Patna. Gaya. Shahabad. Saran Champaran. Santal Parganas. Balasore. Angul Puri Sambalpur Hazaribagh. Ranchi Manbhum Singhbhum	Bhagalpur	Muzaffarpur Darbhanga . Monghyr . Purnea Cuttack .	27,300 25,200 6,300 40,000 6,800

Statement of areas under Tobacco—contd.

Province.	Total area under tobacco.	Districts growing under 2,000 acres	Districts growing 2,000—5,000 acres.	DISTRICTS OVER 5,000.	
				District.	Area.
Bombay, 1921-22	120,120	Panch Mahals Surat West Khandesh. East Khandesh Nasik Ahmednagar. Poona Sholapur Bijapur. Dharwar Karachi Thar Parkar Larkana. Upper Sind Frontier.	Ahmedabad. Broach Hyderabad. Nawabshah. Sukkur	Kaira . Satara . Belgaum .	43,960 9,163 37,554
Punjab, 1921-22.	90,013	Hissar Rohtak. Ambala. Simla ? Kangra. Gurdaspur. Jhelum. Rawalpindi. Mianwali Muzaffargarh.	Gurgaon. Karnal. Hoshiarpur. Ludhiana Ferozepur Amritsar. Gujranwala. Shekhupura. Shahpur. Attock. Montgomery Lyallpur. Jhang Multan. Dera Ghazi Khan.	Jullundur . Lahore . Sialkot . Gujrat .	6,543 5,443 5,750 6,617
Assam, 1921-22	10,768	Cachar. Sylhet. Lushai Hills Darrang. Nowgong. Sibsagar. Lakhimpur. Garo Hills	Goalpara Kamrup.	*Nil.*	

Statement of areas under Tobacco—concld.

Province.	Total area under tobacco.	Districts growing under 2,000 acres.	Districts growing 2,000—5,000 acres.	Districts over 5,000.	
				District.	Area.
Central Provinces, 1922-23.	23,964	Balaghat. Saugor. Drug Damoh Raipur. Jubbulpore Mandla. Akola Seoni. Narsingpur. Hoshangbabad Yeotmal Nimar. Betul Chindwara Wardha Nagpur Chanda. Bhandara.	Bilaspur. Amraoti. Buldana.	*Nil.*	
Bengal, 1921-22	298,100	24-Parganas Murshidabad. Burdwan. Bankura Midnapur Howrah Darjeeling Bogra Bakarganj.	Nadia. Khulna. Hooghly Rajshahi Chittagong Tipperah. Chittagong Hill Tracts.	Jessore Dinajpur Jalpaiguri Rangpur Pabna Malda Dacca Mymensingh Faridpur	9,600 10,700 22,100 176,000 5,400 6,000 11,700 23,600 5,800
Burma, 1921-22	81,374	Akyab Hill District of Arakan. Insein. Prome Myaungmya. Amherst. Tavoy. Mergui. Katha Lower Chindwin Upper Chindwin Kyaukse Meiktila. Yamethin. Myitkyina. Bhamo Shwebo.	Kyaukpyu. Sandoway Tharrawaddy. Bassein Maubin Sagaing. Mandalay. Myingyan Magwe. Minbu. Thaton.	Pegu Thayetmyo. Henzada Pakokku Toungoo	5,421 9,075 7,291 7,505 7,196

ANNEXURE M. (Question 132.)

Tobacco—Rates of Customs Duties in India.

Cigars	75 per cent. *ad valorem.*
Cigarettes	75 per cent. *ad valorem.*
Manufactured tobacco	Rs. 2-4-0 per lb.
Unmanufactured tobacco . . .	Re. 1 per lb.

ANNEXURE N. (Question 134.)

Schedule showing the import duties on Tobacco.

Year.	Tobacco unmanufactured	Cigars.	Cigarettes	All other sorts of tobacco manufactured.
Before 1910 . . .	Free . . .	5 per cent. .	5 per cent. . .	5 per cent.
	Rs A	Rs. A	Rs A	Rs. A.
In 1910 . . .	1 8 per lb .	2 8 per lb .	5 0 per 1,000, if less than 3 lbs per 1,000.	1 10 per lb.
			2 0 per lb., if more than 3 lbs. per 1,000.	
„ 1911 . . .	1 0 per lb .	1 10 per lb .	3 2 per 1,000, if less than 3 lbs per 1,000.	1 2 per lb.
			1 4 per lb., if more than 3 lbs. per 1,000.	
„ 1916 . . .	1 0 per lb .	50 per cent .	50 per cent . .	1 8 per lb
„ 1921 . . .	1 0 per lb. .	75 per cent .	75 per cent . .	2 4 per lb.

ANNEXURE O. (Question 134.)

Statement showing the quantity and value of Tobacco imported into and exported from India from 1909-10 to 1922-23.

(In millions of lbs. and lakhs of rupees.)

Year.	Tobacco Unmanufactured.		Cigars.		Cigarettes		Other Tobacco Manufactured	
	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value.
Imports.								
1909-10 . .	2 70	11 7	11	3 9	3 08	65	1 44	14 3
1910-11 . .	·25	2 4	06	2 7	1 11	36 4	·38	7 6
1911-12 . .	16	1 8	·09	3 4	1 41	51	56	10 6
1912-13 . .	29	2 4	07	3 2	1 45	52 8	·54	10 9
1913-14 . .	29	2 8	·08	3 4	1 59	58 5	·51	10 6
1914-15 . .	16	1 7	06	2 6	1 44	56 3	·56	11 6
1915-16 . .	14	1 8	06	2 7	1 69	63	55	12 6
1916-17 . .	21	2	05	2 2	2 40	103 1	71	17 8
1917-18 . .	62	5 3	04	2 4	3 49	143 4	·65	18 9
1918-19 . .	50	7	04	2 1	4 09	183 2	73	22 3
1919-20 . .	88	11 1	09	3 6	4 22	168 6	·67	18 5
1920-21 . .	71	9 2	07	4 5	6 21	256 3	·62	25 9
1921-22 . .	1 05	16 9	02	2	2 74	131 3	·25	14 8
1922-23 . .	1 23	16 9	02	2	4 09	185 3	[illegible]	21 5
Exports								
1909-10 . .	10 64	13 3	1 30	11 8	..	..	20	4
1910-11 . .	17 61	20 2	1 33	11 3		..	36	5
1911-12 . .	26 49	27 6	1 48	12 4	06	1	·46	6
1912-13 . .	19 58	23 5	1 74	14 2	01	1	·35	5
1913-14 .	27 82	31 8	1 83	15 4	02	2	·36	6
1914-15 . .	16 49	21 7	1 73	13 0	04	4	42	8
1915-16 . .	24 25	30 2	1 56	12 5	06	5	48	8
1916-17 . .	27 24	37	1 13	10 1	31	3 8	12	1 1
1917-18 . .	20 24	35 6	1	10 1	30	4 2	31	1 1
1918-19 . .	31 51	62 4	87	9 5	17	2 4	44	2 1
1919-20 . .	28 95	73 9	73	9 8	28	5 6	92	3 3
1920-21 . .	23 31	63 5	56	7	1	1 1	72	3 3
1921-22 . .	23 90	61 5	·44	5 5	02	3	86	4
1922-23 . .	21 61	72 5	·32	4 2	05	3	1 09	5 4

ANNEXURE P. (Question 140.)

Rates of Death Duties in force in other Countries.

UNITED KINGDOM

Estate Duty.

Exemption . . . £100

Rates—

£	
100–500	1 per cent. of the value of the estate
500–1,000	2 „
1,000–5,000	3 „
5,000–10,000	4 „
10,000–15,000	5 „
50,000–60,000	11 „
100,000–110,000	14 „
225,000–250,000	20 „
2,000,000–2,500,000	40 „

Legacy Duty and Succession Duty

Husband, wife, child, or lineal descendant of child, father or mother or any lineal ancestor	1 per cent
Brother or sister, lineal decendant of brother or sister	5 „
Any other person	10 „

FRANCE

Estate Duty

Charged on capital value of whole estate, where deceased has left less than 4 children

	Per cent			
	3 children	2 children	1 child.	No child
On the portion exceeding 0 fr and not exceeding 2,000	·25	·50	1	3
2,000 „ „ 10,000	·50	1	2	6
10,000 „ „ 50,000	·75	1·50	3	9
50,000 „ „ 100,000	1	2	4	12
100,000 „ „ 250,000	1·25	2·50	5	15
250,000 „ „ 500,000	1·50	3·50	6·50	18
500,000 „ „ 1,000,000	2·25	4·25	8	21
10,000,000 „ „ 50,000,000	4·40	9	18	30

Legacy Duty.

Charged on the legacy received, according to ten scales of relationship.

On portions of legacy.	1st degree.	5th degree.	10th degree.
0–2,000	1	3	25
2,000–10,000	2	4	27
10,000–50,000	3	5	29
500,000–1,000,000	7	10	40
10,000,000–50,000,000	15	17	55

Holland

Charged on the separate legacies according to the following scale —

Florins	Children or spouse	Lineal descendants in second degree	Blood relations in direct ascending line	Brothers or sisters	Children of brothers or sisters.	Others
0—1,000 .	3 50	5 25	14 50	18	27	38
1,001—2 000 . .	4	6	15	19	28	39
2 001—5 000 .	4 50	6 75	15 50	20	29	40
5,001—10,000 .	5	7 50	16	21	30	41
Over 500,001 .	8	12	19	27	36	47

There are reductions when the heir has four or more children living

Belgium

Exempt.

Successions in the direct line or to a surviving spouse not exceeding 2,000 francs.

All other successions not exceeding 2,000 francs

Francs	Direct line	Brothers, married persons without children	Uncles, nephews	Great uncles and great nephews	Others.
1—5,000 . . .	1 40	5 00	6 00	7 00	10
5,001—10,000	1 60	6	7 20	8 40	12
10,000—20,000	1 80	7	8 40	9 80	14
20,000 -50,000 . .	2	8	9 00	11 20	16
1 million—2 million .	3	13	15 60	18 20	26
3 million or over . .	5 40	25	30	35	50

The duty is reduced by 2 per cent for every child of the heir living at the time of succession

Japan

Succession Tax

Yen	1st grade	2nd	3rd
2,000—5000	5%	6%	8%
Over 5,000	6%	7%	10%
„ 100,000	20%	25%	35%
„ 150,000 . .	25%	30%	40%

Inheritance Tax

Over 1,000	12%	13%	20%
20,000 . . .	20%	20%	35%
50,000	35%	40%	50%

ANNEXURE Q. (Question 147)

Division between Imperial, Provincial and Local.

1 India is at present a unitary state, but if the ideal to which its political development is tending is that of a federal state, the problem of the distribution of its revenues must be examined from this standpoint It is proposed in the first instance to survey the system of distribution in modern federal governments with a view to ascertaining whether any general principles can be traced, which guide the distribution of tax revenues between the provincial and the federal governments

2 As a preliminary it is necessary to indicate, first, the difference between the problem as presented in India and in other parts of the world; and secondly, the difficulty of drawing general conclusions apart from a consideration of the special circumstances of each federal state Under the first head, the obvious fact which presents itself is that, whereas the other federal states have been formed by the union of separate political entities, in India, the process is the reverse the development of a federal out of a unitary state It is true that here qualifications must be made The component states of the United States of America and of the three British federations had, previously to federation, been connected by common subjection to the British Parliament The provinces of India had to some extent belonged to different political organizations prior to the British rule But in the main it is true to say that in the other federations the component states surrendered certain of their sovereign powers in favour of the federal state, while in India the process is the surrender of sovereign powers by the central administration in favour of the component states The reasons for this difference is that, whereas in the other federations, the component states in order to strengthen their position in the world or to secure certain other advantages, decided to federate, in India the process has been more artificial. The surrender of powers in favour of the provinces is an essential part in the process for which the constitutional reforms provide.

3 In the second place, any attempt to generalize from the facts of existing federations is unsafe without a realization of the fact that the relations between the federal and the provincial governments are affected to a large extent by the history of the component states prior to federation, by the motives which have led to federation and by the homogeneity or otherwise of the population Where, as in Switzerland, the component parts have, before federation, developed strong characteristics of their own, they will tend to be jealous of surrendering more than is absolutely necessary to the federal government. Again, as in Germany, where one of the component states greatly exceeds the others in power, it may tend to absorb them into something approaching a unitary state, especially when external dangers emphasize the necessity for closer union Where, again, there is little difference in race and character between the component states, as in Australia, there may, especially when communications improve, be a development into a true unitary state, the provincial governments relapsing into the position of local authorities It is obvious that the form of federation into which India might develop would be profoundly affected by the extent to which the country was threatened by external dangers and also by the degree of industrial and commercial development which it might attain. A federation of stationary agricultural states might be content with a system which in a highly industrialized community would be unworkable

Australia

4 Of the three British federations the Commonwealth of Australia exhibits the largest degree of provincial autonomy. When the Commonwealth of Australia Bill was introduced it was stated in Parliament that the rights of the states had been jealously guarded because they had enjoyed an independent existence for a long time prior to federation In the field of taxation especially, there is a good deal of concurrent jurisdiction

The consolidated revenue of the Commonwealth in 1921-22 amounted to nearly £65 millions while the consolidated revenue of all the states amounted to £85

millions, of which £7 millions was Commonwealth subsidy The states' consolidated revenue may be analyzed as follows :—

	Per cent
Taxation . . . 20 96 per cent	
Receipts from Public Works and services, chiefly railways .	57 80
Land, *i.e.*, sale and lease of public land	5 64
Subsidy	8 26
Miscellaneous	7·3

The expenditure of the states was as follows —

	Per cent.
Public debt	23 74
Railways (working expenses) . . .	37 85
Justice	1·24
Police	2 94
Prisons	·34
Education	9·61
Medical	5·32
Other expenditure	18·96

It should be noted that 52 30 per cent of the loan expenditure relates to railways

The revenue of the Commonwealth was as follows —

		Per cent
Taxation	£49 6 million	76
Public works and services	9 5 „ . .	14
Other revenue . .	5 6 „	10

The expenditure was—

Public debt	£14 million.
Post office	8 „
Defence	4½ „
Works	2½ „

The relative importance of the states' finances is exaggerated by the fact that the states manage almost the whole of the railways If the railway finance (working expenses, half of the public debt charges, and railway revenue) is deducted, the provincial revenue and expenditure are in the neighbourhood of £42 millions, and if the subsidies are deducted, the revenue is just over half of the Commonwealth revenue

In the sphere of taxation the importance of the Commonwealth is far greater than that of states In 1922 23 the former raised in taxation the sum of £49½ millions, as against £18¼ millions raised by the states

The sources of Commonwealth taxation are —

	£, (000)
Customs	17,328
Excise	10,302
Land tax	2,284
Estate duty	991
Income-tax	16,790
Entertainments tax	675
War profits tax	1,306

While those of State taxes are—

	£, (000)
Probate and succession	2,214
Other stamp duties	3 211
Land tax	1,156
Income-tax	9,543
Licenses	732
Other taxes	9[illegible]0

It will be noticed (1) that all the direct taxes are levied both by the Commonwealth and the States, the total collected by the former being rather larger than the total collected by the latter, (2) that, with the possible exception of stamp duties, all indirect taxation is taken by the Commonwealth

The rates of succession duties and income tax differ widely in the different states It seems that the financial system, as between the Commonwealth and the States, has not worked satisfactorily In 1923 a conference was held between the Commonwealth and State Ministers with the object of terminating the subsidy system and of simplifying the taxation systems The first proposal was to divide the field of income tax, the Commonwealth vacating the field of taxation of incomes below £2,000, and discontinuing the payment of subsidies This was not accepted by the States, who wished to appropriate the whole of the income-tax Ultimately the majority of the States accepted a modified scheme, under which the Commonwealth retained only the right to tax companies up to a maximum limit of 2s 6d in the pound Pending the introduction of the scheme, it was arranged that the State Taxation Officers should collect both the state and federal income taxes, except where the income is derived from more than one state

Canada

5 In Canada the constitution defines the spheres of the provincial governments and leaves all other powers to the federal government Under section 92 of the constitution the following among other subjects are assigned to the provinces

(1) direct taxation within the province for provincial purposes

(2) public lands belonging to the province,

(3) prisons and hospitals,

(4) municipal institutions,

(5) licenses for the purpose of revenue;

(6) local works,

(7) administration of justice (but not criminal procedure)

The Central Government may raise money by any mode of taxation, and may tax the same subjects as the provinces, though it does not appear to have done so The regulation of trade and commerce is an exclusively federal matter

At the time of federation, the central government took the customs and excise duties, while the provincial lands and mines were assigned to the provinces in which they were situated The provincial debts were assumed by the Central Government A yearly subsidy was provided by Canada, being 80 000 dollars in the case of Ontario, 70,000 for Quebec, etc. In addition, a subsidy equal to 80 cents per head of the population up to a number of 400 000 was made By the Act of 1907 the subsidies were revised and the limit of 400,000 was raised to 2 500,000, the grant per head for population above this figure being fixed at 60 cents Up to the war the federal government depended mainly on indirect taxation, while the provinces imposed corporation and estate taxes and succession duties During the war the federal government resorted to direct taxation. In 1916 a Business Profits War tax was imposed, in 1917 an Income tax, and in 1920 a Sales tax. By 1923 these new taxes exceeded the customs and excise duties in their produce

In 1921 the relative financial position of the provinces and the federal government was as follows :—

(1) All provinces—

(In millions of dollars)

Chief items of Revenue.

Item	
Subsidies	13·9
Lands, mines and forests	14·8
Fees	5·8
Succession duties	8·5
Corporation taxes	15·3
Licenses	14 2

Total revenue 102, of which 46 per cent was taxation

Chief items of Expenditure.

Item	
Debt charges	20 7
Education	20·1
Public works	16 3
Civil Government and Legislation	10 5
Justice	7 9
Hospitals	5 8
Agriculture	5 3
Total expenditure 102	

(2) Federal Government—

Chief items of Revenue

Item	
Customs	163·2
Excise	37 1
War taxes (*i e*, income and sales taxes)	168·4
Post office	26 7
Total revenue 434 4	

Chief items of Expenditure

Item	
Defence	14·5
Civil Government	11·1
Interest and debt	139 5
Justice	2
Police	3·9
Pensions	37·4
Post office	22 7
Public Works	10 8
Railways	11 8
Subsidies	11 5
Agriculture	5·4
Total expenditure 361 1	

South Africa

6 In the latest of the British federations, the Union of South Africa, the functions of the provinces are more circumscribed. These organizations have no Parliaments, but only Provincial Councils, and they pass ordinances, not laws Under the British South Africa Act, 1909, the Provincial Councils have the following main legislative powers,

Direct taxation for provincial purposes
Education, other than higher education
Agriculture
Hospitals
Municipal institutions.
Local works, other than railways and harbours.
Markets and pounds
Game preservation

Up to the year 1913 the provinces had no revenues of their own, and their expenditure was met by subsidies from the Union Government. By the Financial Relations Act 10 of 1913 the following sources of revenue were transferred, with powers of legislation

> Hospital fees, and education fees; totalizator duties, auction dues; dog, game and profession licenses; liquor licenses.

Subsequent Financial Relations Acts have transferred, among other matters, the following

> Libraries and museums poor relief; shop hours; licensing of vehicles on provincial roads, betting, racing and amusements.

The total revenue of all the provinces in 1921-22 excluding subsidies was £3 738,150, while the subsidies amounted to £4,681 998 The expenditure of the provinces may be classified as follows —

General administration	7 per cent
Education	73 ,, ,,
Hospitals and poor relief	10 ,, ,,
Roads and bridges	10 ,, ,,

The revenue of the Union in the same year was £28,884,270 This excludes the railway revenue, which forms a separate fund The main heads of Union expenditure were in —

	£, (000)
General government	3,409
Law, order and defence	6,185
Lands and agriculture	1,676
Posts and telegraphs	3,402
Public debt	7,786
Public health	800
Public works	819

The taxation revenue of the provinces is derived from a number of simple direct taxes Those common to all provinces are—

Transfer duty—a tax on sales of real property,
Liquor licenses,
Licenses, general,
Entertainments tax

Those found in one or other of the provinces are—

Native pass fees,
Totalizator tax,
Auction dues
Poll tax,
Wheel tax,
Companies tax

All the main taxes are levied by the Union, such as customs, excise, income-tax, estate and succession taxes, stamp duties, licenses and native taxes, and land revenue

The subsidy system in South Africa appears to have led to inefficiency in the administration The first settlement, that of 1913, proceeded on the basis of allotting certain revenues to the provinces and of making a grant equal to one half of the normal annual expenditure A Committee which was appointed in 1922 reported that the payment of subsidies on this basis was unsound and in particular had led to an unnecessary increase of expenditure on education. The taxes in the shape of auction dues, poll tax, trade and occupation licenses, company tax and employers' tax were not suitable to provinces. Provinces should be given complete control of transfer duties, liquor licenses, motor taxes, wheel taxes, totalizator and betting taxes and immovable property tax. The Union subsidy should take the form of a grant in aid for education, fixed according to the number of pupils The Committee recommended that trade and occupation licenses should be uniform throughout the Union

It seems that a South African province has a very limited scope and is little more than a local authority on a large scale Its powers bear a strong resemblance to those of a District Board in India.

Switzerland.

7 In the Swiss constitution, the determining factor is the fact that the cantons were organized political bodies long before they joined in a federation. Similarly, in some cases at least, the communes, which make up the cantons, have an independent existence and are not merely local organs of the cantons Thus in some communes where the public property is considerable, persons have to obtain permission and sometimes to pay a sum of money before they can become members of the commune

This factor has resulted in the comparative weakness of the federation vis a vis the cantons and considerable jealousy of any encroachment on the cantonal sphere of taxation

Before the war, 94 per cent of the federal revenue was derived from (a) state property, (b) customs duties, (c) half of the tax payable by persons exempt from military service The cantons took all direct taxes, and a number of indirect taxes also. The following table indicates the main sources of cantonal revenue in 1913 in millions of francs

Direct taxes	Indirect, including succession duties.	Share of federal taxes.	Subsidies (ordinary)
63	29	12	21

When the war broke out, the Federal Government was faced with heavy expenditure over mobilization To meet this, it imposed a temporary war tax on property and income, to be levied by the cantons, which retained a share of the proceeds and paid the balance into the Federal Treasury. The arguments used in support of this measure are interesting from the point of view of the theory of federal taxation Section 42 of the Swiss constitution provides that in times of emergency, the cantons should contribute to the expenses of the Federation according to a prescribed scale In introducing the measure the President of the Council of Ministers explained that to levy such a contribution would be entirely contrary to the custom of the constitution, which had tended in the direction of federal contributions to the cantons Moreover an attempt to levy a high contribution would dislocate cantonal finances. Consequently it was thought desirable to amend the constitution and impose a federal direct war tax

This measure was followed by a federal war profits tax, a second levy of war tax, and finally by an increase in stamp and customs duties

The cantons appear to have retained about 20 per cent of the war tax.

During the war the socialists attempted to enact a permanent federal income-tax. This was defeated, apparently because the cantons regarded it as an encroachment on their sphere of taxation Later on, proposals were made for internal excise duties, but these too were not accepted

By 1922 the sources of cantonal revenue in millions of francs were as follows :—

Direct taxes	Indirect.	Share of federal taxes	Subsidies (ordinary).	Extraordinary subsidies
174	48	11	59	97

The subsidies are all for specific objects, such as roads, forestry, public health, education, etc. The extraordinary subsidies were measures of unemployment relief and reduction in the cost of li- appear to be no general subsidies in the Swiss system It may be

from this fact and from the system of collection and administration of the war taxes that, outside the military and customs organizations, the Federation has no machinery for taxation and general administration and is therefore obliged to use the cantonal organization The subsidy system seems to be merely the means by which a portion of the lump sum derived from customs is apportioned and devoted to specific branches of the administration

For purposes of comparison the federal revenue (1922) in millions of francs is here quoted —

Direct taxes	Indirect taxes	Other receipts.
109 1	188 1	214 3

8 It is now possible to make a comparison between the relative position of states in these federations and of provinces in India They are compared from the point of view of the scales of their revenue and expenditure and also of their importance as taxing authorities The following are excluded · (1) railways and other commercial services and (2) expenditure on defence It will be seen that the powers of taxation enjoyed by Indian provinces far exceed the powers enjoyed by states and provinces in the Dominions

COMPARISON OF FEDERAL AND STATE GOVERNMENTS IN 1921 22

Revenue and Expenditure are stated in millions of pounds converted at par of exchange.

	Australia		Canada.		South Africa		Switzerland		India	
	Commonwealth	States	Dominion	Provinces	Union	Provinces	Federal	Cantons	Imperial.	Provincial
1. Expenditure	51 6	42	64 2	21 1	20 8	8 4	12 6	21 9	26	55 8*
2 Revenue .	55 3	43	83 7	21 1	25 9	8 4	13 6	20 3	60 9*	58 7
3 Percentage of total taxation levied.	73 0	27 0	90 0	10 0	80 0	20 0	54 0	46 0	52 0	48 0

NOTE —Revenue from commercial undertakings and expenditure on commercial undertakings and defence have been excluded.

*Excluding contributions

9 *Principles to be deduced from existing federal system.*—It may be said that, leaving aside the motive of defence, no motive has exercised more influence on bringing about federation than the desire to free trade and business from a [illegible] for uniformity [illegible] aints on trade [illegible] nd entails con- [illegible] l be considered [illegible] customs tariff [illegible] The difficulties [illegible] was the main [illegible] ront, and the matter is prominent among the financial clauses of the constitution Thus, section 86—"on the establishment of the Commonwealth the collection and control of duties of customs and excise and the control of the payment of bounties shall pass to the Executive Government of the Comm[illegible] duties of customs shall be imposed within tw[illegible] the Commonwealth" Section 90—"On the [illegible] customs the power of the Parliament to impos[illegible] and to grant bounties on the production or e[illegible] sive". The same emphasis is laid on this m[illegible] as well as in Switzerland and Germany. It [illegible]

a cardinal featu [illegible] al Government may deal with t [illegible] and industry and that in n [illegible] ies either of customs or exc [illegible] e professional and trade licenses are an important source of provincial revenue, those affecting trade in its wider aspects are reserved for the Union. The general principle appears to be that (in indirect taxation), the provinces may impose such indirect taxes only as do not affect general trade and commerce.

In the field of direct taxation the position is not so clear. Before the war most of the Federal Governments did not resort in any large degree to direct taxation, since their revenues from indirect taxation were sufficient for their needs But the most prominent feature of federal finance during the last decade has been the manner in which all federal governments have been driven into taking the principal part in the taxation of incomes, either on account of urgent need for fresh resources or by reason of the difficulty of administering a personal income-tax over any area smaller than that of a whole country. Switzerland, Canada, South Africa, Australia and the United States of America were all compelled to introduce federal income-taxes during the war. In the United States of America indeed the ground had been prepared before the war during the long movement which led up to the passing of the Sixteenth Amendment Here it was the defects of the existing system of taxation and the impossibility of taxing fairly the big business interests otherwise than by a federal income-tax which forced on the passing of the amendment But though it may be said that an attempt to levy income-taxes by the different states of a federation must lead to double taxation or to evasion on the part of individuals and companies operating in more than one state, as well as to wasteful complication in the machinery, in practice both federal and state income-taxes are found in the United States of America and Australia, while in Canada the provinces are allowed to tax corporations In Australia, as has been seen the simultaneous operation both of the State and the Commonwealth in the field of income-tax has led to difficulties.

Another feature which is apparent in these federations is the common prevalence of the subsidy system and the fact that wherever it is found it is sought to dispense with it In the United States of America this feature is not found partly because of the fact that the country is wealthier than the other federations, and partly, no doubt, because the mainstay of state finance is an apportioned tax which though uneven in its working, brings in sufficient revenue In Australia attempts have been made to get rid of the subsidy system by dividing the field of income taxation. In South Africa the progress of development has been from a pure subsidy system to a system in which the province has its own sources of taxation supplemented by grants made for specific purposes. In Switzerland grants for specific purposes to the cantons have for long been the rule, but as soon as the war broke out, the device of contributions from the cantons which the constitution provides was immediately rejected in favour of a direct federal tax.

10 If an attempt is to be made to lay down the lines upon which an ideal distribution of resources between a federal government and the component States should proceed, it would seem necessary to have regard to the following main considerations —

(a) all duties which affect the price at which goods can be produced or sold must be uniform for the whole country and therefore the main consumption taxes must be federal In other words, the States cannot be allowed to interfere with the economic unity of the country,

(b) for this reason indirect taxes and taxes on the more important commercial transactions should be federal,

(c) elasticity of revenues should be secured for both federal and state governments, and the degree of elasticity which each should have must depend on their respective functions Generally speaking, it is the federal government, as the one in contact with the outer world and the controller of those functions in which the effect of a world crisis is most apparent, which is most in need of elasticity, and it is the universal experience of federations that it must have at least a share in the most elastic of all sources of taxation—that of income;

(*d*) the widespread of modern commercial undertakings and the wide distribution of the sources of individual incomes render it impossible to work an income-tax system fairly and efficiently on anything less than a national scale,

(*e*) unless taxation is so light that considerable changes can be made in its pitch, a pure system of complete separation of taxation can only avoid recourse to subsidies or contributions by the lucky accident that one of the possible systems of separation happens to give both parties sufficient for its needs Even so, there is no guarantee that changes in circumstances will affect both parties to the same extent and so preserve equilibrium Consequently, systems which aim at complete separation inevitably require either subsidies or contributions They, therefore, tend to defeat their own objects, since it is not conducive to responsible administration either to spend money which the spending state has not had to raise, or to raise money which the taxing state is not allowed to spend

11 *Allocation of provincial and local taxation*.—The questions involved in the allocation of resources between states and local authorities are simpler The essential difference is that, whereas there is a division of sovereign powers between the federal and provincial governments, there is no such division between the province and the local authority It follows that, as the responsibility for the actions of the local authority rests with the provincial government, the latter must always retain a large measure of control In a federal state the control of the federation over the state is directed to ensuring that, in the exercise of its own powers, the state does not trench on the sphere of the central government But in dealing with a local authority the responsibility of the provincial government is to see that the local authority manages its affairs in accordance with standards for which the provincial government itself is responsible. Consequently, the provincial government is obliged to prescribe the standard of administration, it suggests new activities and insists on adherence to certain standards in the old activities This almost necessarily involves the permanence of some kind of grant-in-aid in local administration

To look at the matter from another point of view, the local authority cannot command, either for its deliberations or for its administration, the best type of mind. Particularly in the sphere of finance, it can seldom command the services of experts. Consequently, in all civilized countries a large measure of detailed control is exercised over the proceedings of local bodies, and the most appropriate method of control is found to be the use of the grant-in aid

Owing to those considerations it is doubtful whether it is wise, in distributing resources between provinces and local authorities, to aim at providing the latter with sufficient resources to meet all possible needs On the other hand, the benefit principle enters so largely into local expenditure that considerable freedom should be left for optional taxation.

The character of local taxation is governed by two main considerations —

(*a*) the comparative mediocrity of the agencies at the disposal of local authorities for assessment and collection of taxes makes it necessary to rely almost entirely on the taxation of tangible property;

(*b*) the increased danger of double taxation where there is a large number of taxing authorities renders the taxation of intangible property inadvisable

It seems, therefore, that local authorities should rely on the taxation of land and buildings supplemented, if necessary, by taxation of vehicles and animals, but that they should be given considerable discretion as to rates This raises the question whether it is right to throw practically the whole burden of local taxation on immovable property, and it is this consideration which is probably responsible for the prevalance of indirect local taxation and for personal local taxes.

In more advanced countries the placing of the main burden on immovables is defended by the consideration that the value of his house or business premises is a very fair indication of the wealth of a tax payer and also of the benefits he receives from local expenditure. In the simpler conditions of Indian life, it is possible that this is not the case But if taxation of land and houses

does not touch certain classes who receive substantial benefits from local expenditure, the proper course seems to be a system of licenses duties and not indirect taxation or the taxation of incomes. In the latter connection it is interesting to notice that both in Italy and in Czecho-Slovakia recent reforms have led to a prohibition of the levy of a surtax on the State income-tax by local authorities.

* * * * *

12. It has not been possible owing to the absence of figures to include statistics for the United States of America in the above note, but it may be of interest to consider the reports of two important committees that have examined the question of Federal and State, and State and Local taxation, respectively.

13. The following is a brief summary of the report of the Committee on Co-ordination in Taxation appointed by the American Economic Association.—The taxes on exports and imports are naturally and almost necessarily national. Excise taxes are desirably federal rather than state or local. Income-tax should be federal, but it should be open to the states to impose an income tax as well, and if they do so, the basis of the tax should be as nearly as practicable the same as that employed by the federal government. In the case of the corporation taxes, the best plan is to provide for the returns to the state authority to be as nearly as practicable in the same form as the federal return with as simple a plan as possible for the apportionment of the collections. In the case of inheritance taxes, three alternative methods of distribution were considered — (1) to give to the federal government the tax on fortunes exceeding $50 000, (2) to have the whole tax collected by the federal government and the receipts distributed proportionately to the states, (3) to limit the federal tax to intangible property and the state tax to realty and tangible property. In the cases of property taxes, the committee noted that the wholesale trend of current legislation is toward the abandonment of the general property tax and its replacement by a classified property tax on land, improvements thereon and moveable tangible property, either at the same rate or at different rates, and by a personal income-tax on incomes from intangible property and other sources—the first named tax to be exclusively for the state and local purposes, the second to divide the field between the federal and state governments, preferably in such co-ordination as permits the federal returns to be used as the basis of state taxation.

The following are extracts from the preliminary report of the Committee appointed by the National Tax Association to prepare the plan of a model system of state and local taxation :—

*Study of the tax laws of the American States reveals the fact that there are three fundamental principles which have been more or less clearly recognised by our law makers and have very largely determined the provisions of the enactments now standing on the statute book.

The first is the principle that every person having taxable ability should pay some sort of a direct personal tax to the Government under which he is domiciled and from which he receives the personal benefits that Government confers.

* * * * *

The second principle is that tangible property, by whomsoever owned, should be taxed by the jurisdiction in which it is located, because it there receives protection and other governmental benefits and services.

* * * * *

The third principle, somewhat less clearly and generally exemplified by our tax laws but discernible none the less, is that business carried on for profit in any locality should be taxed for the benefits it receives.

* * * * *

It is the opinion of the committee that the only method of reconciling these conflicting claims of the states is the adoption of a *diversified system of taxation* which recognise fully the three principles above mentioned and provides a method by which, without formal agreement among the states, these principles may be

* *Vide* Bullock. Selected Readings in Public Finance, page 491 *et seq.*

logically and consistently applied. We propose, therefore, a personal tax which shall be levied consistently upon the principle of taxing every one at his place of domicile for the support of the Government under which he lives a property tax upon tangible property, levied objectively where such property has its *situs* and without regard to ownership or personal conditions; and finally, for such States as desire to tax business, a business tax which shall be levied upon all business carried on within the jurisdiction of the authority levying such tax. By this method we believe it is possible to satisfy every legitimate claim of every State without imposing unequal and unjust double taxation upon any class of income, property or business.

*   *   *   *   *

The committee is of the opinion that a partial separation of the sources of State and local revenue is desirable, but that complete separation, by cutting the connecting cord between the State and local Governments, tends to destroy the States' sense of responsibility in the matter of local taxation There is no experience to justify the belief that, if the States turn over to the local Governments' independent sources of revenue, and adopt the theory that local taxation is an affair of purely local interest, we shall ever have a satisfactory administration of the tax laws by local officials Experience abundantly shows that such officials need constantly the expert advice, intelligent guidance and, when necessary, the effective control, of a State Tax Commission composed of experts and keenly alive to the need of just and efficient administration of tax laws by local officials Total separation of the sources of State and local revenue, at least in the forms in which it is usually presented, seems to the committee to be distinctly a backward step, especially at this moment when the need is for greater emphasis upon State control over the taxation of property for local purposes. A further difficulty of complete separation is that the abolition of the direct state tax upon property tends to remove a desirable check upon State expenditure

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ANNEXURE B (Question 165)

List of Monopolies

France	Tobacco, matches and explosives
Germany	Spirits and sugar substitutes
Czecho-Slovakia	Salt, tobacco, artificial sweetening materials, explosives and lighting materials
Finland	Alcohol and yeast
Greece	Salt, petrol, matches, playing cards, cigarette paper and emery.
Italy	Salt, tobacco, matches, playing cards, quinine
Switzerland	Alcohol.
Japan	Salt, tobacco and camphor.
Austria	Salt and tobacco
Hungary	Salt, tobacco, saccharine.
Roumania	Salt, tobacco, cigarette paper, matches, playing cards and explosives
Bulgaria	Matches, cigarette paper, playing cards and manufactured tobacco
Poland	Salt, spirits, tobacco, sugar and saccharine.
Sweden	Spirits and tobacco
Portugal	Tobacco.
Latvia	Flax, leather and spirits of wine.
Jugo Slavia	Salt, tobacco, petrol, matches, cigarette paper saccharine and spirits

11th November 1924.

Delhi.

PRESENT.

Sir CHARLES TODHUNTER, K.C.S.I., I.C.S., President.
Sir PERCY THOMPSON, K.B.E., C.B.

Mr. W. GASKELL, I.C.S., Commissioner of Income-Tax, United Provinces, was examined.

Written memorandum of Mr. Gaskell.

The President of the Taxation Committee has requested me to give him a note of the points which I mentioned yesterday in my interview with him and Sir Percy Thompson.

2. The points are—

(i) The kinds of opium issued from the Ghazipur Factory are—

(a) provision opium—made for despatch to the Far East, partly under contracts with the Governments, such as, Ceylon, Straits Settlement, Hongkong, and partly through sales in Calcutta, destined largely, I believe, for French Indo China and sold on permits for imports to the country concerned. This is made from pure Benares opium at a consistence of 71°.

(b) excise opium—issued for consumption in British India. This is made from Malwa and Benares opium in the ratio of 4 : 1 and is issued at a consistence of 90°.

(c) British medical opium—despatched to the United Kingdom. This is made from pure Benares opium issued at a consistence of 87½°. This trade is very uncertain and cannot be looked on at present as an important source of revenue.

(ii) The opium received in the Factory is derived from two sources—

(a) the United Provinces, and

(b) certain States in Central India, the description of the opium being Malwa opium. Opium is grown in most of the districts in the United Provinces west and north of the Ganges and the poppy can only be cultivated under license issued by the Opium Department.

(iii) The amount produced each year varies as the crop gives widely different yields in different years. The area recently settled for the cultivation of poppy during the present cold weather is 180,000 bighas. For purposes of calculation the yield per bigha is four seers so that the yield for the Agency may be estimated to be 18,000 maunds. But the record shows that the outturn varies from 3.2 to 4.8 seers per bigha, the last figure having been attained during the last season which was a record. Opium is supplied by the Malwa States under contract with the Government of India. The amount during the past few years has been in the region of 11,000 maunds but this is being reduced at present owing to the falling off in the demand for excise opium and the consequent accumulation of stocks at the factory: the final figure has not yet been settled.

(iv) The price recently paid for crude opium to cultivators was Rs. 15 per seer at a consistence of 70°. This will be reduced next year to Rs. 13 at the same consistence. I am unable to state the prices which are being charged throughout India at the treasuries for excise opium at the present moment. In 1922-23 the price was generally about Rs 60 but ranged up to Rs 75 in the Bombay Presidency and was Rs 74 to Rs 158 in Burma In the United Provinces, or, at all events, in parts of it, the current price is Rs 120 per seer. As the cost price of the opium, in the terms of the amount paid to the cultivator, and omitting the cost of manufacture and the like, is under Rs. 20, the sale price in parts of the United Provinces is more than six times as much as the cultivator gets There is thus a strong incentive to smuggling and it may be that efforts will be made to tempt the cultivator to hold back part of his outturn, and the Opium Department is

It may be that in time it will be necessary Central C. I. D to deal with the question, of smuggling from the Central India States at I have not yet discussed the matter with is part of my note might be treated as confi- robably not directly affected as the smuggled places outside India

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Mr. Gaskell gave oral evidence as follows :—

Apart from the military assessees we have in the United Provinces 25,000 or 26 000 assessees to income-tax The military assessees, who number about 5,000, are dealt with in separate circles as the tax deducted at the source is credited direct to Central Revenues through the Military Accountant General Out of the 25,000, 4,000 or 5,000 are civil assessees.

Our biggest year was Rs 127 lakhs, of which Rs 52 lakhs came out of Cawnpore A separate Income-tax Department was constituted in 1918 but the staff was inadequate and the cadre was completely reorganised in the beginning of 1921 and direct recruitment was adopted. Our officers are now experts—generally speaking—and we are now getting at the incomes I don't confirm any officer in the department unless he can read a set of account books himself Hitherto we have not prosecuted for frauds on the income-tax because we have had to train the assessee as well as the staff In addition there is always a chance of losing your case in the courts (*Sir Percy Thompson*—Prosecutions are an enormous deterrent in England There were none before 1915 They have altered the point of view of the public) If I had a clear case of fraud I should prosecute

We assess now on the previous accounting period This is much better than the adjustment system The favourite times for commencing a period are the Dasehra and the Diwali This results in payment of tax long after the money

three years' system because the people would ving the same income over and over again. st year of a business Difficulties do arise year and a loss the next We do not allow point has been mooted at times by the business community. A man can always manipulate profit or loss by putting a fictitious value on his closing stock Our rule is to take purchase price or market value whichever is less We try to prevent such fictitious valuations by check with the invoices; for instance, we require strong proof before we accept a closing stock equal to fifteen days' sales.

The pie rate was a bribe for efficient administration by provinces As a department we should be glad to see it abolished owing to the intricate compilation involved

The question of allowances for wives and children is coming up. I tried to work up a scheme last year so far as an allowance corresponding to the allowances of £135 and £225 in the United Kingdom was concerned. It is difficult to work with our scheme of graduation, which involves large jumps The introduction of a graduation scheme like that of the United Kingdom would probably be difficult and also suspected because the people are used to the present scheme and it would disturb them to make a change.

In the absence of effective registry of births and deaths you couldn't work family allowances without an inquisition, which would be resented. The Hindu joint family system, under which a man may have to maintain a number of relations, further complicates the matter The Hindu joint family involves in cases comparatively heavy taxation and the tax is leading in cases to partition. Pandit Madan Mohan Malaviya said that the income-tax had sounded the death-knell of the joint family. There is an allowance to the joint family in the case of the super-tax, but not in that of the income tax.

I do not remember the reason for raising the exemption limit to Rs 2,000 but it was probably because there was a large number of assessees yielding a small amount of tax Relatively Rs 2,000 in India is equal to £400 a year in England It is less easy for the Imperial staff to trace the small assessees in rural areas than it was for the revenue staff under the old scheme, but their assessment is more satisfactorily done When a distant assessee pays a small tax we repeat the assessment for a few years as a matter of course sooner than follow up a small difference which involves spending more than the tax in travelling allowance, such assessees being dealt with on a roster We always attempt to go to the assessee instead of making him come to us

The strongest possible objections to direct taxation are felt by the people in Northern India The method of expressing opinion here is in the last resort a riot The papers of the eighties and nineties will show that in several large cities riots resulted from the attempt to impose a house tax

In the United Provinces a large part of the city population escapes municipal taxation because they live in houses below the exemption limit

The income-tax rates with super-tax added rise on the highest incomes to over 10s. in the pound on the highest part of the income (this supposes that all the income is derived from dividends, a rare case), or much the same as in England There is a tendency on the part of most assessees at present to attempt evasion of the tax It is doubtful if an increase in the tax would lead to more successful evasion than now exists.

In the United Provinces, the introduction of the new department has given us some Rs 40 lakhs a year additional revenue although necessarily such an estimate is difficult to frame We have one gazetted officer to a million population and 700 to 800 assessees of whom 500 may be expected to produce accounts, most of them in the local business script known as *Mahajani*

The graduation system could be improved by increasing the number of classes, *e g*, by adding a $7\frac{1}{2}$ pies and a $10\frac{1}{2}$ pies rate

I don't think that, so far as the United Provinces is concerned, it would be of any advantage trying to distinguish between earned and unearned incomes. The unearned would be a very small proportion, especially where that is the sole income I think that agricultural income ought to be taxed because in my view agriculturists pay no tax, but this is a highly contentious subject on which much can be said on both sides

I do not think you could carry the people with you if you prescribed a standard form of accounts We have had great improvements in the past few years both in the matter of submission of returns and in the preparation of profit and loss statements In the United Provinces the people have a very fairly good system of accounts

In the matter of publicity, you would not have a single book produced if you appointed advisory committees If you wished to disclose the amounts of assessments you would be up against both the European and the Indian merchants

We don't assess incomes made outside India unless the money is brought in (*Sir P. Thompson*—In the United Kingdom incomes derived outside the country were brought under tax in 1914)

I will send a note about opium dealing with (1) the difference between the cost price and the sale price and the difficulty which may some day arise in preventing smuggling from becoming uncontrollable as in the case of cocaine, (2) the necessity for an Imperial C I. D. officer to co-ordinate work against the opium smuggler, and (3) the results of the enquiries made as to the practicability of issuing the excise opium in small packets or pills of uniform weight

19th November 1924.

Delhi.

PRESENT:

Sir CHARLES TODHUNTER, K.C.S.I., I.C.S., President.

Sir BIJAY CHAND MAHTAB, G.C.I.E., K.C.S.I., I.O.M., Maharajadhiraja Bahadur of Burdwan.

Sir PERCY THOMPSON, K.B.E., C.B.

Mr. H. CALVERT, I.C.S., Registrar of Co-operative Societies, Punjab, was examined and gave oral evidence as follows:—

The terms of reference did not appear to have been drawn up by an economist, in particular it was difficult to say what was meant by "suitability" of a tax for India. An economist can only point out the facts as they are, but a politician often followed not what was economically the best course, but a course which was more acceptable under the existing conditions, and revenue was sometimes sacrificed to considerations such as the need for avoiding offence to political or religious prejudices. Mr. Calvert's work had been directed to an attempt to get accurate economic facts. There was a large mass of material accumulated by Government which had never been properly examined and digested, that is, it had never been brought into a shape which was suitable for a basis of work by an economist. Witness gave instances to show that Government sometimes objected to accept the results worked out from their own material.

In India there existed no proper foundation of carefully collected facts on which economic deductions could be based. The facts were available but not in the form in which an economist could utilise them. In his enquiries into agricultural mortgages he had examined about 5,000 mortgages in detail. In the area where these enquiries were made, the cultivated land had increased greatly owing to the opening up of a canal and had increased to a large extent than the growth of the population. There had also been a heavy increase in mortgage debt but it had been impossible to ascertain from the Settlement Reports exactly when the canal was opened, so that no fixed point could be taken from which the changes could be dated. He also instanced the income-tax figures. Formerly these had been put in a form which made them useful for an economist, but recently these detailed statistics had been discontinued on the ground of economy.

The witness thought that something could be done to get these statistics put on to a proper basis by a process of collation, compilation and correction, but the difficulty was that the different kinds of statistics were framed on different bases so that it became difficult to get a definite result out of them. This was seen in the enquiries into the rise of prices where the 'rise' varied with the figures adopted as the base and in other matters also. For example, the classification of piece goods used by Railways was quite different from the customs classification with the result that it was impossible to trace the goods from the ports to their destination up country. The President explained that the Committee thought that the only satisfactory basis for their investigations was a representative set of family budgets. This would show the expenditure of typical groups as well as their income and the taxable surplus. Mr. Calvert stated that family budgets were dangerous; there must be a very large number if results were to be deduced applicable to 240 million people; they tended to ignore production, and so gross income. The great difficulty was the prevailing ignorance regarding the outturn of crops per acre; the true outturn was not known within 25 or 35 per cent. A professor of Agriculture had attempted to

estimate outturns on fields cultivated under his own supervision and his results had been out by 30 per cent For the village enquiries a man was put down in a village for a whole year. The first report was defective, the second was better and the third, which was now under preparation would, he hoped, be a great improvement In working out his figures the last investigator, in every case, showed that the cost of production was greater than the value of the crop, which would lead to the conclusion that the only advantage which the cultivator had got was that he obtained his food at wholesale instead of at retail prices This conclusion seemed absurd and showed that the real outturn per acre was not accurately known We do not know the figures for production and consequently the gross income cannot be ascertained Commercial firms in the Punjab assumed that the Government forecasts were 25 per cent below the real outturn. The rate at which borrowers repaid the co-operative societies was far quicker than would be possible if the figures for outturn were correct If the Committee intended to proceed on the basis of family budgets for a population of 240 millions, nothing less than a million family budgets could afford a satisfactory basis for a generalisation The witness agreed that for a taxation enquiry the taxes which hit the different classes could be ascertained to some extent, and, if reliable family budgets were obtained for different groups, it would be possible to know how much they spent per family but it would not be easy to see what proportion their taxation bore to their income

It was not sufficient to take the actual money income of a worker. Mr Findlay Shirras's figures for income take no account of the landed interests of a work man Even where a cultivator was not also an industrial worker the same difficulty arose In working out the rates for agricultural labourers, the witness found that it was impossible to assess the various supplementals which were not expressed in money such as the labourer's right to a free house, free grazing, wood and various presents The actual amount of cash receipts might be less than Rs 2 a month and the rest of the labourer's income was in kind Some District Boards in the Punjab were now levying a profession tax of Rs 2 a head on agricultural labourers which could not possibly be paid if the labourer's sole income was that which he received in money He thought that it would be ten years before a satisfactory series of family budgets could be prepared and the refusal of Government to provide sufficient money for the enquiries would lengthen the period He wished to make a complete investigation in six villages only this year but the funds required for this purpose even had been refused He thought that Dr Slater's enquiry gave a very general idea of the condition of the people, those of Dr. Mann were not very reliable Mr Jack's enquiry was the best The Kangra enquiry in the Punjab was going to be the most detailed enquiry ever held into Indian rural life The witness stated that his own enquiries into agricultural holdings had illustrated the danger of using averages In taxation the "average" man was no guide, as we wanted to find the man who had sufficient surplus to bear taxation As a general rule, family budgets are dangerous, because they usually show deficits People put down not what they do pay but what they would like to pay This feature had been noticeable in the family budgets prepared for the Lee Commission.

In reply to Sir Percy Thompson the witness agreed that, if an economic enquiry had to be held in order to ascertain the average income, the first step would be a census of production It would be necessary to approach the problem from this point of view. Personally he would make an attempt on these lines But assuming that an accurate figure was obtained on the basis of a census of production, it would be of little value from a taxation point of view and would only be useful for purposes of comparison with other countries For the further step, that is the distribution of the income among the various classes, it would take many years to get anything valuable If a sufficiently big staff say, 150 investigators, was put on for five years it might be possible to get some advance on our present information If he had to undertake this work, he would begin with the rural classes since these are about 80 per cent of the whole He would omit the lower classes who were below the taxation limit and would examine the upper classes in order to arrive at a rough estimate of their income The existing revenue agencies could be used He would direct each Kanungo to prepare figures for four villages in his circle and the results would be collated These results would be from villages well distributed throughout the country and so fairly accurate He still objected,

however, to the use of family budgets, because any error in them must be enormously exaggerated when applied to classes of the whole population. Assuming that all cultivators had been classified in classes according to the area cultivated, it would be necessary to take out those cultivating less than a certain area, which would have to be found by trial and error, as being unable to bear any taxation; this would eliminate about 60 per cent. Assuming that the figure to be raised by taxation is known, the resources of the remaining classes would be examined in order to ascertain their comparative ability to bear taxation.

The President explained that the Committee would take the groups of which they had figures and find out what their taxation was. Mr. Calvert thought that it would be necessary to scrutinise the local conditions of the areas selected in order to see what the special conditions were His general conclusion was that the figures of these family budgets themselves were not worthless but were so few that it was dangerous to use them. The Maharajadhiraja Bahadur of Burdwan enquired how he would deal with a case of a cultivator with five acres who had two brothers working in a mill and earning wages there The budget of this family would present considerable difficulties but Mr Calvert thought that the difficulties could be dealt with by the type of enquiry which he contemplated After two years enquiry in one tract he thought he could now produce accurate family budgets for ten families. If such figures were collected in 200 villages in every province, there would be something on which to go

Sir Percy Thompson said that the taxation enquiry was interested in finding out the classes who were just on the margin of being able to pay taxes at all What was wanted was to ascertain the point at which a class became too poor to bear taxation. Those above this point could be neglected as they could afford to pay tax The witness agreed but thought that it would be necessary to compare local conditions before defining the classes, as a man with 10 acres might if this were irrigated land, have more income than a man with 30 acres He thought further that if the family budgets for classes on the margin could be ascertained, it would be possible to say whether they could bear taxation If there was a large normal class below the margin they might have to be exempted altogether. It should however be remembered that pe[illegible]d not work unless there was economic stimulus to make them work From this point a tax like the salt tax was probably a good thing, though the witness regarded this particular tax more as a commercial profit and less as a tax In any case, the amount was very small Accepting the argument that there were large classes which need not be considered in detail the witness thought that the figures might be obtained in less than a year, but that they would take a very long time to collate He did not think that an accurate view could be obtained unless the whole rural population was divided into classes according to the area cultivated. It would be necessary to get some idea of the proportion of population which fell into the different main classes With regard to the question whether income could be roughly ascertained from revenue paid or the area of a man's holding, the witness stated that in the Punjab there was reason to believe that any person holding more than 25 acres tended to become a rent receiver, pure and simple. Proprietors holding up to 8 acres tried to get more land to cultivate as tenants. Those holding between 8 and 12 acres did not try to get more, and when the holding became more than 12 acres the owner began to let out portions of it With 25 acres the owner was nearly always a rent receiver. A man with 25 acres in a canal colony could be assumed to have a net income of between Rs. 600 and Rs 800 from rent only The land revenue in the Punjab varied between 4 and 6 per cent. of the gross produced. The rent taken in kind is one half to one-third of the gross outturn after payment of certain expenses, and land revenue is about 1/5th of the rest.

Turning to the second question in the questionnaire the witness said that it took six years to collect materials for his book "Wealth and Welfare of the Punjab" The President explained that the Taxation Committee was more in the position of a Chancellor of the Exchequer who wanted to know roughly which classes were hit by taxes After an examination of the classification in the preliminary note the witness said that there was a certain amount of intermingling between cultivators and rent receivers. In the census returns there was a classification between rent receivers and cultivators. In the Punjab the people who returned themselves as rent receivers were almost the same as those who voted for the Council election, that is, those paying more than Rs. 25 as land revenue. He thought that the rent receiving class was undertaxed in the

Punjab The distributing class, that is the agencies which collected the crop and marketed it, was not included in the classification The witness then examined the list of sociological enquiries in India He thought that Dr. Slater's enquiry illustrated the danger of the introduction of sentiment into economics. One investigator stated that the rent was 10 times the land revenue Yet he described the poverty of the village not to the high rent but to the land revenue He thought that Keatinge's first book was better than the second one and Dubey was an example of the fallacy of argument He (Dubey) thinks that the population is permanently underfed which is impossible He also makes the mistake of supposing that a person in a Jail takes less food than a free labourer What really happens is that a greater amount of food is necessary in order to counteract the depressing influence of jail life Further, regard must be paid to the age classification of prisoners and of the general population He instanced the confusion which had arisen in comparing the death rate in jails and among the general population

The Agricultural Journal and the Economic Journal both contained articles which would be useful to the Committee

In reply to the question whether he could indicate the average income of a money lender in the Punjab, the witness stated that he worked out this in his book from the old income tax figures ... of the money lenders were not landowners and only held small scattered plots The Land Alienation Act came just in time to prevent them from getting hold of the land Under this Act a cultivator belonging to an agricultural tribe can only sell his land to a member of an agricultural tribe If he wishes to mortgage it, it must be in one or the other of three definite forms In two of these, which were usufructuary the interest and the principal are presumed to be paid off out of the produce in not more than 20 years In the third form, which is a collateral mortgage, possession is not given Instalments are specified and if they are not paid up the mortgage can take possession of the land for the balance of the sum due for a period not exceeding 20 years The result of this act was that all mortgage business had passed into the hands of the agriculturist money-lenders (i.e., not to the ordinary non-agriculturist money-lenders) The difficulty in agricultural debt is not so much the high rate of interest, which for unsecured debt is about 36 per cent in the Punjab, but dishonest accounting The distributing classes were big commercial men dealing with large firms and mostly pay income tax They, therefore, came into the classification under the head Persons assessed to income tax—Traders" Turning to question 5, witness said that the book on India written by the American Consul General was very useful, though inferior in parts Among general statistics the census figures would be extremely useful for the enquiry He gave as an instance the fact that the census gave 3 million landlords in the Punjab though the land revenue returns suggest 12 million Both figures are right, the explanation being that each man has several holdings on which he pays land revenue

The Land of the Five Rivers' was a useful book, it gave a general record of British rule in the Punjab There was a similar book in Madras called "Forty years progress in the Madras Presidency' The books of Messrs Darling and Strickland were chiefly accounts of European co-operative systems and would not be of much use Mr Darling was just bringing out a new book which would be useful There was a great mass of material in the Department of Revenue and Agriculture but it was difficult to obtain any trace of it In particular, he knew of two compilations produced preparatory to the Punjab Land Alienation Act There were compilations on "Famines", "Prices and Assessments" and "Debt' These consisted of a mass of most carefully compiled information, though they were now out of date

Asked whether he could refer the Committee to any analysis of the various estimates of average income in India, the witness said that he could not Such estimates simply could not be made on a proper basis and even when they had been obtained they were of no value The other books mentioned by Mr Calvert were Brij Narayan—Studies in Indian Economics which he considered a poor production. Useful summaries were given in Miss Broughton's Indian Labour and in a book by Miss Kellman called "Labour in India". Prof Myles had prepared two monographs, one on direct taxation and the other on Punjab Food prices which would be extremely useful The witness then examined the list of material available for an economic enquiry and said that he

however, to the use of family budgets, because any error in them must be enormously exaggerated when applied to classes of the whole population. Assuming that all cultivators had been classified in classes according to the area cultivated, it would be necessary to take out those cultivating less than a certain area, which would have to be found by trial and error, as being unable to bear any taxation; this would eliminate about 60 per cent. Assuming that the figure to be raised by taxation is known, the resources of the remaining classes would be examined in order to ascertain their comparative ability to bear taxation.

The President explained that the Committee would take the groups of which they had figures and find out what their taxation was. Mr. Calvert thought that it would be necessary to scrutinise the local conditions of the areas selected in order to see what the special conditions were. His general conclusion was that the figures of these family budgets themselves were not worthless but were so few that it was dangerous to use them. The Maharajadhiraja Bahadur of Burdwan enquired how he would deal with a case of a cultivator with five acres who had two brothers working in a mill and earning wages there. The budget of this family would present considerable difficulties but Mr Calvert thought that the difficulties could be dealt with by the type of enquiry which he contemplated. After two years enquiry in one tract he thought he could now produce accurate family budgets for ten families. If such figures were collected in 200 villages in every province, there would be something on which to go.

Sir Percy Thompson said that the taxation enquiry was interested in finding out the classes who were just on the margin of being able to pay taxes at all. What was wanted was to ascertain the point at which a class became too poor to bear taxation. Those above this point could be neglected as they could afford to pay tax. The witness agreed but thought that it would be necessary to compare local conditions before defining the classes, as a man with 10 acres might, if thi[illegible] 30 acres. He thought fur[illegible] could be ascertained, [illegible] If there was a large no[illegible]mpted altogether. It should however be remembered [illegible] not work unless there was economic stimulus to make them work. From this point a tax like the salt tax was probably a good thing, though the witness regarded this particular tax more as a commercial profit and less as a tax. In any case, the amount was very small. Accepting the argument that there were large classes which need not be considered in detail the witness thought that the figures might be obtained in less than a year, but that they would take a very long time to collate. He did not think that an accurate view could be obtained unless the whole rural population was divided into classes according to the area cultivated. It would be necessary to get some idea of the proportion of population which fell into the different main classes. With regard to the question whether income could be roughly ascertained from revenue paid or the area of a man's holding, the witness stated that in the Punjab there was reason to believe that any person holding more than 25 acres tended to become a rent receiver, pure and simple. Proprietors holding up to 8 acres tried to get more land to cultivate as tenants. Those holding between 8 and 12 acres did not try to get more, and when the holding became more than 12 acres the owner began to let out portions of it. With 25 acres the owner was nearly always a rent receiver. A man with 25 acres in a canal colony could be assumed to have a net income of between Rs 600 and Rs 800 from rent only. The land revenue in the Punjab varied between 4 and 6 per cent of the gross produced. The rent taken in kind is one half to one third of the gross outturn after payment of certain expenses, and land revenue is about 1/5th of the rest.

Turning to the second question in the questionnaire the witness said that it took six years to collect materials for his book "Wealth and Welfare of the Punjab". The President explained that the Taxation Committee was more in the position of a Chancellor of the Exchequer who wanted to know roughly which classes were hit by taxes. After an examination of the classification in the preliminary note the witness said that there was a certain amount of intermingling between cultivators and rent receivers. In the census returns there was a classification between rent receivers and cultivators. In the Punjab the people who returned themselves as rent receivers were almost the same as those who voted for the Council election, that is, those paying more than Rs. 25 as land revenue. He thought that the rent receiving class was undertaxed in the

1st December 1924.

Delhi.

PRESENT:

Sir CHARLES TODHUNTER, K.C.S.I., I.C.S., President.

Sir BIJAY CHAND MAHTAB, G.C.I.E., K.C.S.I., I.O.M., Maharajadhiraja Bahadur of Burdwan

Dr. R. P. PARANJPYE

Dr. L. K. HYDER, M.L.A.

Mr. A. G. CLOW, I.C.S., Deputy Secretary in the Department of Industries and Labour, was examined and gave oral evidence as follows:—

Mr. Clow began by explaining certain enquiries which had been made by the Government of India into the compilation of cost of living indices and the possibility of a census of wages.

Dr. Hyder. Q.—Did your Department calculate the total number of days on which the labourers worked?

A.—We never got to the wages census at all. It was abandoned as it was a failure.

Q.—Mr. Paddison (Commissioner of Labour, Madras, in his note on the results of Wages Census Statistics) says that the monthly average wages of certain classes of employees is Rs. 21-10-9. The whole point is whether the workman gets this amount the whole year round or thereabouts, or how many weeks or days he is able to get work at this rate. Can you get in the wages census the total number of days on which the labourers are able to get work in the year?

A.—You are assuming that the wages were paid monthly?

Q.—That would be your basis.

A.—But it must depend on how the wages are paid. In certain cases, *e.g.*, in the jute mills in Calcutta, wages are paid weekly.

Q.—If a wages census were to be taken, it is necessary to know not only the wages per week or month but also the actual number of weeks or months they were able to earn that wage.

A.—In order to arrive at that, you must take care that the month you take is a normal month. That is essential.

Dr. Par[illegible]pye. Q.—Would you not take the whole year?

A.—I[illegible] be difficult to get the employers to give the figures. The best way is [illegible]e month. If you try the year the trouble is this. In the average [illegible]e turnover period is 18 months or two years. Within that [illegible] recruited would be equal to the whole labour of the factory. [illegible] take a year, you are trying to collect the total wages of a p[illegible]

[illegible] much per month. But the average labourer, according [illegible] working, absents himself for, say, six days. Are you [illegible]ay, Rs. 50 a month or Rs. 50 × 24/30?

[illegible]al amounts paid to him.

[illegible]ith factories working at some periods only like

[illegible] a brief period and calculate the length of a [illegible]d compare the length of the season with pre-

Q.—Of what use would such a wages census be?

A.—Ginning is a subsidiary occupation so that a census in seasonal factories would not be sufficient to give you the income of the persons concerned.

Dr. Hyder. Q.—I want to know whether we should not have a wages census of the kind described here—

(Quotation from Bowley)

"We must consider first the object which the wage census was intended to fulfil it was to describe the earnings of the people of the United Kingdom, to compare the rates of wages trade by trade, and to find the relative numbers earning at each rate What is the best quantity to measure with this object in view? As a preliminary question should we take the day, week, or year as the unit of time? Clearly we shall not be able to compute weekly wages if we only obtain daily, for the week's work varies from four to seven days in different occupations The week's wage is a more definite quantity, but the simple comparison of weekly wages in different trades will be deceptive, because most trades are busier at one season of the year than at another, and in many the difference between season and season is very great in any particular week, then, we may be comparing the best season of one industry with the worst of another To avoid this error, and because we do not know how many full week's wages are obtained in a year, except in a few non-intermittent trades, it would seem best to take the year as unit; but the direct calculation of an individual's annual earnings is practically impossible"

A.—I am very doubtful if you can get a census on this system here at present. Without compulsory powers it will be difficult to get any statistics at all

The President Q.—Are you not trying to get compulsory powers?

A.—It was tried in Bombay A Bill was introduced; but it was finally found to be necessary to withdraw it at the last occasion though certain modifications were introduced to meet the wishes of those who opposed

Q.—Who were the opponents?

A.—There was general opposition to it

Dr Paranjpye Q.—Was it not the contention that such a piece of legislation should be an all India one?

A.—That was one of the reasons advanced

Q.—Was it not contended that this legislation should be taken into consideration with the Trades Disputes Bill, and that the two Bills should be taken into consideration by the same authority and should be on an all-India basis?

A.—I think so The Trades Disputes Bill is being taken on an all-India basis.

Q.—I only wanted to be fair to the opposition

Dr. Hyder. Q.—The difficulty in India is that no one is willing to pay for the preparation of the statistics. the Central Government say that this should be done by the Provinces, and the Provinces contend that it is an all-India affair.

A.—It is a provincial affair Labour intelligence is a provincial reserved subject

Dr Paranjpye—But subject to legislation by the Central Government

Dr Hyder—I am afraid I cannot ask any further question because there has been no enquiry.

A.—The enquiry was started, but ended in failure except in the case of the Bombay Cotton Mills, where its success was due largely to the desire of the millowners to see the result.

The Maharajadhiraja Bahadur of Burdwan Q.—Don't you think it would be impossible to get family budgets?

A.—No; I don't think so If you spend sufficient money you can get family budgets They got over 3,000 budgets in Bombay. In the United Provinces I think they collected 1,500

Q.—But the results were not published?

A.—I rather think that the officer supervising the work had other duties to perform, and speaking from memory, I think he had to leave his work rather hurriedly to take up another post. It was felt that the enquiry was scarcely carried through on a sufficiently big scale to reach sound conclusions.

Q.—What is meant when you put in so many crores of rice, etc., in this column (Appendix II to Government of India's letter of 8th March 1921)?

A.—That is a system which is explained in the circular letter . . . .

Q.—I take it that what is meant is the amount consumed. But even then I do not quite follow how you get the mass unit.

A.—That is a system different from the system of working on family budgets. The estimate of consumption is obtained by adding the estimated imports of commodities into India to their estimated production and subtracting the estimated exports.

The President. *Q.*—You say that the English census took from 1906 to 1913.

A.—I had no time to verify that, but I think it is right. It took eight years.

Q.—Have you any estimate of its cost?

A.—No.

Q.—What was the exact object of that census?

A.—Professedly it was purely statistical. It was the collection of "raw material" for future inquiries.

Q.—Have you any idea of what it would cost to conduct a similar enquiry in India?

A.—I think it would be a much larger figure than the Government of India realized in 1920.

Q.—Would it take six years?

A.—It might take more.

Q.—Even with compulsion?

A.—No. That would make a difference.

Dr. Paranjpye. *Q.*—Would compulsion be practicable?

A.—I am not sure. You are probably a better judge than I am.

The President. *Q.*—Would any general census be successful without compulsion?

A.—I do not think so. Bombay was a special case. The millowners were very anxious to find what the average rates were.

Dr. Paranjpye. *Q.*—I believe their impression was that the rise in the wages was greater than the rise in the cost of living.

A.—Possibly.

Q.—And thus they wanted to take the ground from under the feet of the wage earners?

A.—I do not know at all. I think they wanted to know what the average wages were and they were willing to co-operate.

The President. *Q.*—These index figures, some of them were utilized by the authors of the *Wealth and Taxable Capacity of India* in order to fix the price of commodities?

The Assistant Secretary.—They only did that to measure the value of income in 1914 and 1924. If a man had an income of Rs. 1,000 in 1914 and Rs. 2,000 in 1924 and the price has increased twice also, then the real income of the man has not increased.

The President. *Q.*—To come now to the prices statistics. There is a reference to an enquiry into the revision of the prices statistics. What was the result of that?

A.—I do not think that much was done.

Q—Are they not talking of scrapping these index numbers and introducing more accurate statistics in Bombay?

A.—They did collect family budgets and work out weights that way. The two are compared in Mr. Shirras's book "Working Class Budgets" But so far, the Labour Office has adhered to the aggregate expenditure method for the index number for publication in the Gazette

Q—The Government of India are in favour of the other basis?

A—The Government of India took that view in 1922 in the Resolution published then. The difference lies in the way of getting the weights

Q.—Have they changed the weights?

A—They obtained weights based on actual family budgets in Bombay, but they have continued to use the figures worked out on the original lines of aggregate expenditure.

Q—Do you think that an all-India index figure based on family budgets is possible?

A—Personally I do not think it would be of much value

Q—Would you give a list of the family budgets that were collected?

A—I have given, as far as I know, in the memorandum those collected by provincial agencies.

Q—Would those family budgets be of any use to us in gauging the taxes?

A—I do not know.

Q.—Failing any reliable information as to the general wealth or average income, the family budget seems to give us the best guide of what a man does spend on taxes.

A.—Directly or indirectly?

Q.—Both I think you could put us on the track of a number of family budgets

A.—The trouble is that when you prepare family budgets you must first prepare a form I do not know if the forms on which information was asked for were prepared in a manner suitable for the extraction of this information. If so, they would be useful.

Q—It is possible that all the taxes paid by the poorest classes will be only indirect.

A.—I think this Committee is more expert than I am on that The family budget might show the amount spent on dutiable commodities. I have indicated the enquiries in this direction sinc[illegible]
by Mr Jack in his enquiry in Far[illegible]
B B. & C. I Ry for the purpose [illegible]
Some were collected by the Servants [illegible]
(*The Asst. Secretary.*—They are [illegible]
report. They are collecting intens[illegible]
Bihar and Orissa. I think the B[illegible]
the Punjab.

Q.—About the value of Government statistics generally Would you give us any new means of arriving at the estimate of different classes of statistics coming into this economic enquiry?

A.—It depends on the origin Unfortunately, the origin is usually not in direct touch with the authority publishing the statistics To take for example the return of prices current, it used to be the custom in the U. P. for the Tahsildar to send in the list of prices ruling in the bazar The average was compiled in the district headquarters and passed on higher. The Tahsil officials were interested in seeing that the prices were not too high as they were used for making payments in camp. The system has possibly altered since then.

Q.—On the other hand, the clerk is interested in seeing that the prices do not fall within the level of grain compensation!

A.—Yes. Statistics so collected may go on to a man in Calcutta who has never seen them collected on the spot or been able to check the methods

Q.—Some theorists seem to regard these figures as infallible Can you give us a criticism of the same?

A.—Their value differs, but in some cases they are very fallible One was given by Mr Hullah of the Revenue and Agricultural Department, an instance of the inaccuracy of the rice statistics. Bengal and Bihar and Orissa, when they were one province, had a fairly uniform return for rice per acre Bengal later revised the method of calculation The result was a big decrease in the recorded figure Then it was found that the standard outturn in Bihar and Orissa was very much greater than that of Bengal or U P Bihar also were asked to correct their method of calculation Bihar had a good crop that year (1921) But the figures showed 33 per cent lower than the previous normal return I think the big companies are very chary of accepting the official figures

Q.—Do they add to them or subtract from them?

A.—I cannot say.

Q.—There are no materials on which to base an enquiry?

A.—Some statistics are fairly accurate In the U P for example, the figures of area under crops are fairly accurate as a result of the land records system, but the figures for outturn involve guess-work

Q.—Figures of prices also?

A.—Probably

Q.—Are the statistics of minerals generally more reliable?

A.—I should say they are fairly reliable on the whole In the case of coal a large number of big companies give accurate returns The Government royalties have to be measured on the outturn

Q.—I wonder whether the companies' figures are checked with the royalties.

A.—Probably the same returns are used for both purposes The Chief Inspector of Mines could give you better information on the point

Q.—Are there no statistics of minor industries?

A.—I know of none

Q.—Here is an author who takes the number of persons shown in the census as employed on cottage industries and calculates the output of industries at four annas per head per diem

A.—On what basis?

Q.—That is all

A.—If I say only two annas, who is going to settle the dispute?

Q.—Somebody else may say Re 1 Is there any possibility of getting a figure?

A.—If you made detailed inquiries into a number of cottage industries and found that four annas a day was a close approximation to the income in each industry you examined, there would be some ground for regarding that as an economic level for the neighbourhood and applying it to all similar industries in the neighbourhood For a general all-India figure, four annas must be a pure guess

Q.—There are millions of people to whom this figure is applied, and will not the error vanish?

A.—The error also may be multiplied by millions

APPENDIX.

(REFERRED TO IN MR. CLOW'S EVIDENCE)

Sample Cost of living index for Calcutta.—The mass units are those arrived at for all India.

Articles	Unit.	Weight (in crores).	Price in July 1914.	Price in November 1920	Total expenditure in 1914	Total expenditure in 1920.
1	2	3	4	5	6	7
			Rs	Rs.	Rs. Crores	Rs. Crores.
I.—Foodgrains, Cereals—						
Rice . . .	Maund .	70	5 94	8 50	415 80	595·00
Wheat (including flour)	" .	21	4 36	6 37	91 56	133 77
Maize . . .	" .	7	2·81	4 19	19 67	29 33
Total—Foodgrains, Cereals.		...	.		527 03	758 10
Foodgrains, Pulses—						
Gram . . .	Maund .	10	5 91	8 75	59 10	87·50
Arhar dal . . .	"	7	5 94	9·38	41 58	65 66
Total—Foodgrains, Pulses.	" .	...	.	.	100 98	153 16
Other articles of food—						
Sugar, raw . .	" .	7	5 25	13 00	36 75	91·00
" refined . .	"	2	7 81	28 75	15 62	57 50
Tea . .	" .	$\frac{1}{40}$	20 00	25 00	0 50	0 62
Salt . . .	"	5	2 50	3 75	12 50	18 75
Fish	Seer	25	0 75	0 88	18 75	22·00
Meat—						
Beef	" .	28	0 31	0 50	9·68	14 00
Mutton . . .	" .	33	0·59	0 69	19·17	22 77
Milk . . .	Maund .	14	10·00	15 00	140 00	210 00
Ghee . . .	"	1½	60·00	110 00	90·00	165·00
Chillies . . .	" .	½	12 00	16·50	6 00	8 25

Sample Cost of living index for Calcutta—contd

Articles	Unit	Weight (in crores)	Price in July 1914	Price in November 1920.	Total expenditure in 1914.	Total expenditure in 1920.
1	2	3	4	5	6	7
			Rs	Rs	Rs	Rs.
					Crores	Crores
Other articles of food—*contd*						
Turmeric . . .	Maund .	1·10	5 75	9 88	0 58	0 99
Betel-nuts . . .	" .	1·10	9·56	11·30	0 96	1·13
Tamarind .	"	1·10	6 00	7 00	0 60	0 70
Vegetables—						
Potatoes . . .	Maund	11	7·19	11·88	79 09	130 68
Brinjals .	"	6	6 88	5 62	41 28	33 72
Onions .	" .	3	3 44	5 62	10 32	16 86
Oil, Mustard . .	"	1½	22 50	30 00	33 75	45 00
Total—Other articles of food.		..	.		511·85	838 97
Total—All food articles			.		1119 86	1750 23
II.—Fuel and Lighting— Kerosine oil .	Case	5	4 75	8 38	23 75	41 90
Firewood . . .	Maund .	48	0 50	0 88	24 00	42 24
Coal (Bengal) . .	" .	1	0 31	1 12	0 31	1 12
Total—Fuel and Lighting.					48 06	85 26
III.—Clothing— Dhoties, Saris and Chadars	Lb .	27	0 71	2 04	19 17	55 08
Shirtings and Longcloth	"	25	0 73	2 09	18·25	52 25
Nainsooks and others .	" .	36	0 60	1 90	21 60	68 40
Total—Clothing .		..		..	59 02	175 73
IV.—House rent . .	Per month	10	17 41	20 80	174 10	208 00
Grand Total—All articles		...			1421 01	2219 22
					100	156

Index Number for November 1920 as compared with July 1914 is 156

APPENDIX.

Cost of living index for Bombay (City).—The mass units are those arrived at for all-India.

Articles.	Unit.	Weight (in crores).	Price in July 1914.	Price in November 1920	Total expenditure in 1914	Total expenditure in 1920.
1	2	3	4	5	6	7
			Rs.	Rs.	Rs Crores.	Rs. Crores.
I.—Foodgrains, Cereals—						
Rice	Maund	70	5 59	7·62	391·30	533·40
Wheat (including flour)	"	21	5 59	8·96	117·39	188 16
Jowar . .	"	11	4 35	8·16	47·85	89 76
Bajra	"	6	4 31	8 37	25 86	50·22
Total—Foodgrains, Cereals	..		.	...	582 40	861 54
Foodgrains, Pulses—						
Gram . .	Maund	10	4 30	8 33	43·00	83 30
Kulthi	"	3	3 96	8·37	11·88	25·11
Total—Foodgrains, Pulses	...	.	...	.	54 88	108 41
Other articles of food—						
Sugar, raw (Jagri)	Maund	7	8·56	25 40	59 92	177 80
" refined .	"	2	7·62	29 09	15·24	58·18
Tea . . .	"	1/40	40·00	53 33	1·00	1 33
Salt .	"	5	2 13	2 93	10 65	14 65
Meat—						
Beef . . .	Seer	28	0·32	0 67	8 96	18·76
Mutton .	"	33	0 42	0 93	13·86	30 69
Milk . .	Maund	14	9 20	23 70	128 80	331 80
Ghee . . .	"	1½	5. 79	1 43	76·18	1937 14

Cost of living index for Bombay (City)—contd.

Articles.	Unit.	Weight (in crore).	Price in July 1914	Price in November 1920	Total expenditure in 1914.	Total expenditure in 1920.
1	2	3	4	5	6	7
			Rs.	Rs.	Rs Crores	Rs. Crores.
Other articles of food—*contd.* Vegetables—						
Potatoes	Maund	11	4·19	9 53	49 28	104 83
Onions	"	3	1 55	3 97	4 65	11 91
Oil, Cocoanut	"	1	25 10	35 17	12 70	17·58
Total—Other articles of food			.		381 24	901 67
Total—All food articles				.	1018 52	1671 62
II.—Fuel and Lighting—						
Kerosine oil	Case	5	4 37	8 19	21 85	40 95
Firewood	Maund	48	0 79	1 19	37 92	57·50
Coal (Bengal)	"	1	0 54	1 14	0 54	1 14
Total—Fuel and Lighting					60 31	94 89
III.—Clothing—						
Dhotis, Saris and Chadars	Lb	27	0 59	1 72	15 93	46 44
Shirtings and Long-cloth	"	25	0 64	1 85	16 00	46 25
Nainsooks and other cloth.	"	35	0 58	1 63	20 88	60 84
Total—Clothing		...			52 81	153 53
IV.—House rent	Per month	10	11 30	18 70	113 00	187 00
Grand Total—All articles		...	..		1244 64	2310 04
					100	186

Index Number for November 1920 as compared with July 1914 is 186

4th December 1924.
Delhi.

PRESENT:

SIR CHARLES TODHUNTER, K.C.S.I., I.C.S., President.

SIR BIJAY CHAND MAHTAB, G.C.I.E., K.C.S.I., I.O.M., Maharajadhiraja Bahadur of Burdwan.

SIR PERCY THOMPSON, K.B.E., C.B.

DR. R. P. PARANJPYE.

Mr. G. G. SIM, C.I.E., I.C.S., Financial Commissioner for Railways, was examined and gave oral evidence as follows:—

The President. Q.—Mr. Sim, will you kindly help the Committee with your views on the question of the average income and the taxable capacity of the people? We understand that the Financial Relations Committee examined this question from the point of view of the comparative taxable capacity of the provinces.

A.—This question of the comparative wealth of the different provinces was inquired into by the Meston Committee, but no definite conclusions could be arrived at. All sorts of statistics were tried but no definite conclusions could be arrived at.

Q.—Would the same thing apply when you consider India as a whole?

A.—I don't think it necessarily would. What I mean is this. The kind of figures they took were such as the consumption of piece-goods, and the statistics available did not enable them to ascertain the exact places of consumption. I was not a member of this Committee, I was merely a liaison officer deputed by the Government of India to avoid unnecessary correspondence, but when I was in Calcutta I was asked by the Committee to get figures in regard to foreign piece goods. I found out that the statistics published were supposed to show all the foreign piece-goods received at the different ports and their place of destination. These were railway statistics, statistics relating to inland trade in foreign piece goods and other things. I found out from the officer in charge of the Statistical Department that as these statistics were compiled by the railways and as the railways charged the same rates for foreign piece-goods as they did for Indian piece goods, they simply put down any haphazard figures they liked. As they charged one rate for both classes of goods, and had no knowledge of what the different packages contained, those statistics were really based on nothing at all.

Sir Percy Thompson. Q.—When you refer to foreign piece-goods, I suppose they were luxury articles?

A.—Yes. The Committee also tried to collect figures regarding the consumption of sugar per head of population in different provinces. They had figures of foreign sugar received at different ports and the first place of destination, but there were no statistics to show in what place that sugar was consumed.

The Maharajadhiraja Bahadur of Burdwan. Q.—Do you mean to say that these statistics for sugar were taken from the Railways?

A.—The Railways had certain figures, but the Directors of Agriculture also compiled figures showing the export from the province, and some of these figures were taken by them from the railway figures. But the difficulty arose in this way, that sugar is also grown in the province itself.

Q.—Is there any machinery by which you could control any sugar that is diffused in the province? Take for instance, Raneegunj or Asansol. There a coal merchant has a depôt, and he diffuses the coal not only in Allahabad but in the Punjab. What I want to know is, when you have a lot of coal or sugar brought to a central place, is there any machinery by which you can control the stuff and get proper figures?

A.—You could take the figures from the railway statistics to a certain extent.

Dr. Paranjpye Q.—Are there any separate figures for sugar and *gur*?

A.—Yes, but the whole trouble as regards sugar is you have got the estimates prepared each year by the Agricultural Department showing what the produce of the country is

Q.—That is comparatively small indeed.

A.—It is a substantial amount in the United Provinces. These statistics are prepared in this way. To begin with an estimate is made out of what is called a normal crop and the outturn per acre of sugar of a normal crop is found out by ascertaining the outturn of sample areas in different parts of the country. A normal crop is called a sixteen anna crop. Each year they make out an estimate of what the crop is going to be for that year If they find that it is a ¾ or ½ crop, they make it the basis for another estimate. When we got the estimates for all the provinces, we found that the United Provinces were consuming far more sugar, nearly three times more per head of population than any other province, which was really absurd The discrepancy is due to the fact that you have an estimate of the average crop of the year applied to an estimate of the outturn of a normal crop and with one estimate on another estimate a slight change in the percentage will give widely different figures

Q.—Do you mean to say that the figures of imported sugar were added to the figures of indigenous sugar?

A.—Yes

The President Q.—You say that it is absurd to suggest that the United Provinces consume three times the quantity of sugar consumed by the other provinces, but is it not a fact that in the case of salt, the returns likewise show that one province consumes three times as much salt as another would you suggest that the estimates of consumption of salt are all wrong?

A.—The figures for salt are taken from the figures and reports submitted by the men in charge of the Salt Department That is quite a different thing. They do not work entirely on railway figures They sell the salt to particular people, contractors buy it, and the man in charge of the Salt Department knows roughly the areas in which the salt was disposed of

Q.—The Madras returns are based on the quantity issued from the factories less the quantity taken out of the province by rail, and I imagine the same is the case in the North The nett result of these figures shows that Madras consumes three times more than the quantity of salt consumed by the North-West Frontier Province?

A.—I do not know how it is, perhaps people have different ways of consuming salt.

Q.—You said that you tried to follow various methods to arrive at the average income and the taxable capacity of the people Did you try to follow Sir David Barbour's method?

A.—No; an attempt was made to ascertain the agricultural incomes We could not follow them up, especially in Bengal where there is a Permanent Settlement The Bengal authorities have got their own records of rent for the purposes of local cesses, but they told us that the figures are quite unreliable as indications of genuine rents

Q.—You found the records of crop estimates to be unreliable? Those were the only things available in Bengal?

A.—In Bengal for the purposes of land revenue, they are not concerned with rents at all They have a statement of rents for the purpose of the local cess which is levied by the local bodies, and they told us that the figures are inaccurate and unreliable

Sir Percy Thompson. Q.—Supposing those figures were accurate, how would you be able to get rents in a place where there is a Permanent Settlement?

A.—In the temporarily-settled areas you are supposed to have a staff continuously at work, recording all the changes in rents and tenures, right through the year It is on those records that land revenue is assessed What you get is the rent and not the land revenue.

The President *Q*—I take it that in any ryotwari province you have got a record of the area of cultivation of different crops for the year which is fairly reliable?

A—Very accurate.

Q—In permanently-settled areas you say there are no figures?

A—There were no figures of rents in Bengal In the temporarily-settled areas the Government itself keeps a correct record, whereas in a permanently-settled area they are concerned only with the revenue and they do not have this kind of machinery In the temporarily-settled areas a man can sue through a court only for the recorded rent.

Sir Percy Thompson *Q*—Is not the recorded rent a purely artificial rent? It is fixed by the Settlement Officers?

A.—It is only in certain cases In the United Provinces tenants are paying rents which were fixed 12 years ago. The difficulty now is this that there are large areas where the statutory tenant is now occupying 90 per cent of the land, and there are few rack rents for comparison

The President *Q*—We now come back to the question of statistics May I take it that you have satisfied yourself that in permanently settled areas you could not get any reliable figures for the areas cultivated with different crops?

A—No, we could not get any reliable figures regarding rents.

Q—You did not inquire into the figures kept by the chaukidars and Police?

A—No

Q—Did you go into the crop estimates, outturn, etc?

A—Yes For instance, in the case of sugar, there is an estimate upon an estimate if your estimate for a normal 16 anna crop was out by a small percentage, and if your estimate of the average crop of a year was out by 3 or 4 per cent, the resulting estimate might be very wide of the actual fact.

Q—Can you tell us how the Chambers of Commerce get their figures? One witness told us that in the Punjab they always add 25 per cent to the Government estimate?

A—I know that big exporting firms like Ralli Brothers have some method of arriving at these figures They have got a certain percentage or a certain basis to find out what will be available for export upon which they fix their prices but how they do it I have not been able to ascertain The Railways keep a correct estimate but only for particular crops, and we can find out the quantity of, say, wheat exported, from the N. W. F Province to Karachi

Q.—You could test the crop forecast by the figures of goods carried by the railways?

A.—Yes.

Q—You do that with wheat, jute, cotton, tea, I suppose

A—Yes.

Q—Anything else?

A—There are oil seeds, etc. They are well distributed over the country and we have got the figures for them. Of course roughly worked out. You will find the statistics for the principal staple crops in the administration report published by the Railway Board each year. They are not absolutely complete. We do not get returns of the amount of oil-seeds carried by the railways as we get separate statistics for particular staples only from the railway systems where such staples form not less than a certain percentage of the total goods handled

Q—Is the bulk of the oil-seeds exported?

A.—A good many of them are.

Q.—Is there no forecast?

A.—There must be a forecast. I do not think there is an official forecast, but I think there must be a forecast by the trade itself We should get them from the exporting firms They don't publish the forecasts

Sir Percy Thompson Q—Would they object?

A.—I don't think they would

The President Q—"Capital" gives a long catalogue of quantities and prices, we could get them?

A—Yes.

Q—Can you give us any statistics regarding special crops?

A—Not forecasts

Q—Do any of the Jute or Tea Associations publish any statistics?

A—I am afraid I cannot tell you that The Tea Association, I think, publishes something I know it does get its forecasts from all the different people in the Association

Q—I suppose the Meston Committee did not go into the question of the income from cattle or poultry.

A.—No.

Q—About minerals, can you tell us anything?

A.—Yes, we have figures about coal particularly

Q—Could we get a fairly accurate account?

A.—Yes I would refer you to the Annual Report of the Railway Board There is a volume of statistics showing the principal commodities carried by the railways

Sir Percy Thompson Q—May I just ask you a leading question? When the Meston Committee got to work, they thought that for the purpose of their inquiry they would like to get the average income according to the taxable capacity of the people of the various provinces and they came to the conclusion that at present there was not sufficient material to arrive at any reliable figures We are now starting a fresh inquiry Supposing we want to try and get at the average income of the inhabitants, how would you be able to get at it, what further information would you want?

A—It seems to me that it is impossible to get at the average income You can get a certain amount of information I think the Co operative Societies in the provinces ought to be able by now to give a fairly accurate statement regarding the profit a man makes out of his land in the areas in which they work I do not know if that information is tabulated anywhere

Q—*The profits from an acre vary according to the quality of the land*

A.—But still all these co-operative societies deal with these matters

Q—Are these co-operative societies spread over the whole of India?

A—They are certainly spread over the whole of the United Provinces I think they have now a bank in almost every district I think they could get figures as to what the average income is in their area

Q—You could classify all people cultivating land, and say that their income ought to be so and so Is that the sort of thing you suggest?

A— I think the co-operative societies would be able to give the average income of a village

Q—The Members of the Legislative Assembly have asked for the average income of India?

A.—It is impossible to get any such figure at all.

Q—Suppose you had unlimited money to get unlimited fresh statistics, could you find out the average income then?

A.—I do not think even then you could do it.

Q—But they have done it in other countries For instance, in England they have got income-tax which goes right down They have got wage statistics.

A.—Even with all that, surely the estimates by different experts fluctuate enormously

Q—That is perfectly true They do get figures which are of course quite different from others.

A.—Yes

The President *Q*—What would be the variation?

A.—I understand it varies up to 100 per cent. I have seen figures by two different authorities where the difference was 50 per cent.

Sir Percy Thompson. *Q*—Supposing the Angel Gabriel came down and gave us that figure, will it be any good for our purposes?

A—It would not be of any good for the purposes of taxation, unless somebody is going to try to increase the average income

Q—It would serve this purpose, that it would be the starting point for ascertaining how the total income of the country was distributed among various classes?

A.—I do not quite see how it will help you even if you get it.

Q—If you know the distribution among the various classes you can evolve some scientific scheme of taxation You can then say what taxes will fall on various classes and you will be able to say whether the taxation is falling upon the income which is really able to bear it

A.—This you can find out if you have a system of direct taxation only Besides you will not be in a position to know how much is paid by the agriculturists and how much by the industrialists and how much by the professional classes. In fact, you will not be able to know who pays any amount I thought they wanted to get this figure merely for the purpose of comparing the percentage of the average annual income with other countries

Q—That is for the sake of mere curiosity Even then, does it really amount to very much? Supposing the average income in India was Rs 100 per year The amount of taxation however will depend upon the distribution of income It seems to me that to find out what the rate of taxation is you want to know not only the average income but also its distribution

A.—Yes; I do not think the average income will be of any practical help for the purpose of imposing any taxation

The President *Q*—Have you had any family budget statements of railway employees collected in connection with any inquiry into their wages?

A—I am not certain about it

Q—Can you tell us the average income of the railway employees?

A.—That we can give you.

Q—I would like you to come back to the Meston Committee for a moment. Their terms of reference really required them to take the separation of sources and the method of division of revenues as a settled question and to deal with the question of the deficit only. They had nothing to do with the theoretical method of distribution

A.—That is so

Q—And they did not go into the question whether other methods of dividing the revenue between the various provinces were possible?

A—They suggested an alteration in one case It was an alteration in regard to stamps But they considered that the division of revenues and expenditures was beyond the scope of their inquiry.

Q—Have you any views on the other methods of division such as assessing a tax by the Central authority for local purposes or the division of the yield?

A—When they started this reform question, every Provincial Government insisted on getting completely separate resources. This demand was mainly due to the trouble they had with the divided heads of revenue

Dr Paranjpye *Q*—Was not the trouble about divided heads this, that a certain head was administered by the province and the expenditure on that head had to be referred to the Government of India

A.—The provinces naturally objected to interference by the Government of India in the administration of the 'divided' heads

The President. *Q*—I quite see the objection to the divided head especially where the rate is fixed by the provinces Seligman discusses five methods and he discards two and suggests a combination of the other three. (The witness was referred to these five points.) He rejects the first and the fifth and recommends the combination of the second, third and fourth.

A.—My view is that you should have completely separate revenues If you are going to have a tax shared between two Governments, how are you going to fix the rate ?

Q.—I take it that he contemplates the rate being fixed by the Imperial Government.

A.—In that case the Imperial Government may fix a rate which may give to particular provinces more than they want This question was raised in connection with a demand from Bombay for sharing income-tax. The point was this At present it is purely a central head But if you are going to have a divided head and if the Central Government want to get an additional crore of rupees they would have to raise the yield by 2 crores.

Q.—That would be an argument against dividing that particular head Take the case of death duties which are generally recognised as duties which should not be varied frequently Is not that a suitable case for the division of the yield?

A.—If you get a fixed rate, certainly it would not cause much difficulty. But how are you going to fix the initial rate to begin with?

Q—It would have to be done by the Central legislation and Central Government just as is the case with income tax

Sir Percy Thompson. *Q*—Is there any real difficulty about that? What you should do is this You start with a standard rate say, 5 shillings in the pound Then you come to the conclusion that the provinces should have half Now, supposing the Central Government wants more than half—it wants, say, three-fourths, then it will have to raise the standard for it

A.—They still get the same rate They would not always get half , that would avoid my first objection But as regards income-tax there remains the difficulty which will always be there of how to determine what really is the income tax due to a particular province

Q—I know that is a fearful difficulty

A—We could not get any solution of that This question was brought forward before the Meston Committee into two connections Bombay demanded a share of the income tax, but Bengal took up the question for a different reason They wanted the Meston Committee to fix the amount they should pay to the Central Government by taking into account what they paid already through the 'central' taxes Now, they tried to sift out the income-tax levied in Calcutta between incomes earned in Calcutta and incomes earned elsewhere Calcutta is a big commercial centre and the headquarters of numerous companies They tried to prove that above 90 per cent of the actual income-tax which was collected in Calcutta came from companies which were working in Calcutta

Q—But there is precisely the same problem existing in England at the present time, namely the division of the income tax between Northern Ireland and Great Britain The point I wanted to put is really this There is a good deal of literature on the subject as to whether you ought to tax agricultural income or not Supposing you come to the conclusion that you should tax agricultural income Take, for instance, Bengal where you have a low permanent settlement Do you get there more income tax because the Provincial Government gets less land revenue?

A—It would not be getting the same amount of income-tax and land revenue combined as the Government of a temporarily settled tract would get

Q—What I mean to say is this The mere fact that the Provincial Government is sacrificing its land revenue by charging very low land revenue means that more goes by way of income tax to the Central Government In other words,

the Central Government is in a way preying on the taxable capacity of that province because the province does not really take its real share by way of land revenue

A.—That would be the natural result.

Q.—In that case would it not immediately become necessary to allow the province to have some share of the income tax in order to minimise, so far as possible, the effect of that?

A.—With regard to agricultural income the difficulty is not so great as it is with regard to industrial income There is no difficulty in allocating it between different provinces

Q.—But once you adopt the principle that the Provincial Governments are entitled to a share of the proceeds of the income-tax, you come to the difficulty of adjusting the claims of the various provinces which will not be in proportion to the amount actually collected inside the province

A.—I quite see that I do not think there will be any difficulty regarding the distribution of the tax on agricultural income

The President—Please come back again to the questions we sent you Take income tax It is either a case for separation of sources or for division of yield

A.—Yes

Q.—What about land revenue?

A.—Land revenue must be entirely provincial It is so linked up with the whole administration of the country that you can never administer it except with the aid of the Provincial Governments. You can never make it a Central source of revenue

A.—Then what about Customs?

A.—Customs must be Imperial You could not allow Bombay to take all the Customs duties on goods imported for consumption in other provinces.

Sir Percy Thompson Q.—You could divide it up proportionately to the amount of consumption in different provinces?

A.—It is very difficult to find out the proportion

The President Q.—What about the export duties on goods that can be identified as the produce of a particular province?

A.—The provinces have always made that claim

Q.—Do you think there is anything in it?

A.—It is rather a difficult question We have had three claims Jute from Bengal, Tea from Assam and the Rice duty in Burma These claims were put forward before the Meston Committee. They threw them out on the ground, that the Central Government could never allow any tampering with the questions of customs, whether import or export

Q.—You can clearly identify certain commodities as the monopoly of a particular province Is it not fair to let that province have the benefit of the tax on them?

A.—That is assuming that the Government of India gives up export duties altogether as a general principle The difficulty is this that if you do give the provinces the right to tax exports generally you are bound to have a lot of trouble owing to the different rates.

Q.—Is it not practicable to arrive at an equitable arrangement?

A.—I do not think so. If you are going to give to Bengal the right to tax jute

Q.—Do not give to Bengal the right of taxing jute. Let the Central Government tax jute, the proceeds might go to Bengal.

A.—How is the Central Government going to fix the rate?

Q.—In consultation with the Provincial Government?

A.—Still it would come to the same thing, namely that the Provincial Government was allowed to fix the rate on jute.

Q.—If you do not impose it, the province will get it?

A.—Jute is certainly the monopoly of Bengal

A.—Yes. It is all linked up with the question of the taxation of a province. In Burma the local Government taxes its oil industry. There is a royalty for that.

Q.—Is Burma alone taxing oil? Does not the Punjab tax oil?

A.—I am not certain about it.

Q.—Is it a provincial tax?

A.—As far as I remember the royalty is a provincial tax It used to be included with land revenue.

The Maharajadhiraja Bahadur of Burdwan. Q.—Eventually the Central Government in the case of a local Act will have to fix so much per cent from each province irrespective of what it gets?

A.—The original division of the taxes proposed in the Montagu-Chelmsford report was deliberately based on the principle that the Central Government should get as far as possible sufficient to cover all its demands and leave the rest to the provinces

Q.—Suppose the Central Government wanted a crore of rupees All that it has got to do is to fix a ratio according to which each province should pay towards the Central Government expenditure That is the only way I can think of by which you can get over the difficulty

A.—The practical difficulty at present is in getting at that ratio.

The President Q.—We had better pursue now the application of the principles that we were discussing to the different taxes. The next item is Excise, which is a Central tax in all Federal States In India, however, you cannot make it Central because we have got a system by which the rates are pushed up in each local area to the highest figure that does not lead to uncontrollable illicit practices. Would it not be practical to make a basic rate Central?

A.—I do not think you can do anything with Excise now, as this subject has been handed over to the Ministers in all the provinces You have got a political difficulty there

Q.—Are you not already experiencing the same difficulties as were experienced in the States? That is one of the things that was referred to by Mr Lloyd in his speech on the question of the present Committee

A.—But you had these difficulties before

Q.—They were all settled by the Government of India?

A.— Yes But I do not see how you can meet it now The question of the rates is now so much linked up with the whole question of excise policy

Q.—Supposing that you enforced the old order that the rate of duty on locally-made foreign liquor should be the same as the tariff rate Would there be anything improper if the whole of the duty were credited to the Central Government? That was one of the difficulties which led the Government of India to impose the tariff rate on all foreign made liquors in India That continued until the Reforms when each province tried to get as much as it could and proceeded to alter the rates of duty and imposed customs barriers against its neighbours Would it not be in accordance with Federal principles that the Central Government should reimpose the old system and keep the duty

A.—I do not think it would work at all The question of the excise policy is a thing that you have handed over definitely to the Ministers

Q.—If a province chose to go dry, the Government of India would lose its revenue?

A.—Yes

Q.—But so long as the liquor was consumed, the Government of India would get in the case of foreign liquor the whole of the duty. Possibly it might get the same in the case of *ganja* and opium. In the case of country spirits a basic rate of duty might be laid down, to which a province could add as much as it pleased Would such a plan be practicable?

A.—I do not think that the plan is workable. The Ministers as well as the local Councils will always insist on having this matter entirely in their hands and having complete power to fix the rates that they should charge

Q.—But it would be entirely in their hands except for the fact that they would not have the power to reduce the rate below the Government of India basic rate They could put it up as high as they chose. Supposing an excise duty is levied at the rate of Rs. 5 per gallon for Imperial purposes. Any Minister could put on another Rs 5 or Rs 10, but he could not reduce it below Rs. 5. The prospect of a Minister wanting to do that might be ignored

A.—The Ministers would still object to it.

Q.—I am trying to arrive at a scheme on the basis of other Federal constitutions which would avoid what the Maharaja has been suggesting, namely, that you must have contributions based on revenue or population or some other factors which the Meston Committee rejected

A.—I understood the Maharaja to say that you should take a percentage of the total revenues of the province

The Maharajadhiraja Bahadur of Burdwan.—The question of unfairness in that case would not be so acute. Suppose the whole income of Bombay is 20 crores and that of Bengal is 40 crores. Under that ratio if the Government of India says 'we claim half', Bombay would give 10 crores and Bengal would give 20 crores What I mean to say is that each province should be allowed to develop according to its own resources.

Dr. Paranjpye Q.—My suggestion would be that the Government of India should ask for contributions from the provinces on a population basis.

A.—My own view is there should be a complete separation of revenues. The present trouble is about the contributions, and this will disappear when the contributions are wiped out.

The President Q.—Nobody accepts the settlement as equitable

A.—I do not know if there is any dispute except as regards income-tax.

Q.—May I pursue the classification? Supposing you made tobacco the subject of taxation, how would you classify it?

A.—That would be Provincial.

Q.—Is it practicable for a single province to impose such a tax?

A.—It has been done upcountry. They used to have a municipal excise on tobacco all over Northern India They had also octroi, and they imposed a municipal excise tax on the tobacco grown inside the municipal limits as a counterpoise to the tax on imported tobacco. That was the regular practice here, but octroi has been almost abolished in the United Provinces

Q.—How would you make it universal in a province?

A.—The excise would be simply so much per acre.

Q.—Suppose you impose an acreage duty, would not the effect of that be that the cultivators would give up the cultivation of tobacco and import it from outside?

A.—They might, but I doubt if they would

Q.—Would not that operate against a single province imposing such taxes?

A.—In the same way it might affect any province which imposes a tax on its exports, say on rice. I think it would be rather difficult for the Government of India to work the excise duty on tobacco. You would have to work it through the Local Governments, they have got the records of the different crops.

Q—Now about stamps generally, is it not a very unsatisfactory arrangement to allow provinces to levy different rates for the stamps on similar documents?

A.—I have not heard any complaints.

Q—I believe the Government of India had to intervene themselves in some cases?

A.—There are certain classes of documents the stamp duties on which are reserved for legislation by the Central Government.

Q.—It is quite clear that the Government of India had to intervene to stop the effects of the separation of the revenues?

A.—It reserved particular classes of documents. I don't think that represents a very big proportion.

Sir Percy Thompson. *Q*.—The proceeds from Reserved stamps go to the provinces?

A—Yes, but that represents a very small proportion of the total proceeds from stamps, and no difficulty has been experienced owing to the fact that the stamp duty on other documents varies from province to province

The President *Q*—While we are dealing with stamps, supposing a large development of stock exchange business takes place and a variety of rates is introduced, you would have business shifting from one province to another?

A.—It won't shift from centres like Calcutta and Bombay in a hurry. Even in the old days the law was interpreted very differently in both centres, but it did not shift the trade The difficulty would be very great

Q—Would the Courts in a province where the duty is more accept documents executed in a province where the stamp duty is less?

A—In such a case, unless the proper stamp is put on, the courts will not allow them to be put in, *i.e.*, the stamp must be the one fixed by law for the place of execution

Q—If that is so, would it not result in documents being executed across the border?

A.—I don't think so It would cost a lot for a mortgagee to cross the border He will have to pay his own expenses there and back again which would amount to much more than the difference in stamp duty

Q—He might have the documents executed under a Power of Attorney?

A.—Still there would have to be a very big difference in rates In any case, if that was the result, then the province would have to lower the duty

Q—You would then have an undesirable competition and you would have many businesses shifting?

A—I don't think the provinces are anxious to raise their duty, the present position is that if one province does it, the others follow suit I don't think there has been any practical difficulty, as the Government of India have reserved for Central legislation all those particular documents where a varying rate would cause trouble.

Sir Percy Thompson *Q*—In England you could not possibly have a double stamp duty?

A—A difference in court-fee duties can never cause trouble to different provinces The fee is charged by the court where the suit is put in

Q—Have not cases been known of barristers signing documents to save the stamp required on the power given to a vakil?

A—It might shift work from one class of lawyers to another As a matter of fact, prior to the Reforms we had different rates for what are called process service fees, the fee has always varied from province to province

Q.—Take, for instance, transfers on stocks and shares?

A.—I think that is one of the Reserved duties The proposed list was sent round to commercial bodies for opinion and they picked out particular kinds of documents like Receipts, Cheques and Transfers, and those have been reserved entirely for Central legislation, but the list is a very limited one

The President *Q*.—May I take it that your general view is that separation of the sources of revenue is the main plan that must be followed?

A.—Yes

Dr Paranjpye. *Q*.—How would you meet the contention that Bombay is not getting enough for its own development? Bombay says it has got to spend a lot of money in order to improve and encourage its industries Take, for instance, the Bombay Development scheme A large amount of expenditure has been incurred in order to produce the proper conditions in Bombay city?

A.—Bombay raises heavy taxes from the industries through the Corporation

Q.—Yes, but the benefit of that goes to the Central Government. For instance, Bombay finances the Sukkur Barrage scheme, there will be an increase of production in Karachi, and the consequent income-tax will go to the Government of India If, say, two million acres of wheat land would be available, the Karachi merchants would make an enormous profit, and consequently the Government of India will benefit?

A.—Agricultural income is not liable to income-tax. The income-tax on the profits of the exporter would probably be levied in Calcutta which is the headquarters of many of the exporting firms with branches in Karachi

Sir Percy Thompson *Q*.—I see Dr Paranjpye's point. Take a hypothetical province which is very largely commercial If it is so, probably the province has to spend a good deal on its docks in order to afford proper facilities for that commerce When it does so, it will have to raise money for it. The argument of that province will be this, that they have got to tax to give proper facilities for their commerce, and the Government of India takes a share of it?

A.—As a matter of fact, the docks are run by Port Trusts in each province In Bombay the Corporation is entirely responsible for most of the expenditure referred to, and I believe they have a heavy house tax as high as 20 per cent

Dr Paranjpye.—I am talking of provincial and local together. I am not speaking of municipal and provincial

The President *Q*.—You can conceive an extreme case in which one province had no commerce and was entirely agricultural, and yet the profits went to a different place?

A.—You have a typical case for instance in Bihar and Orissa You have an industrial centre in Jamshedpur where Tatas have started a new industry. The Local Government provides police and other arrangements, but the income tax goes to Bombay because Bombay is the headquarters of the Company. Certainly an industrial province spends more on its local needs, but I don't think that this extra expenditure is as a general rule reflected to any great extent in the provincial budget It appears mainly in the expenditure of local bodies For example, Bengal, in spite of the existence of Calcutta, has always contended that its expenditure per head of population is less than that of any other province in India

Dr Paranjpye. *Q*.—Bombay spends the biggest amount, I think?

A.—I do not think in an industrial province the provincial expenditure is unduly inflated

Q.—The cost of living in a purely commercialised province is very great. For every service we have to pay far more For instance, we pay a schoolmaster a minimum wage of Rs 25 in the Bombay Presidency, while in other provinces it is Rs 10 Rs 12 and Rs 15 That is due to the fact that the cost of living in Bombay is high owing to her commercial activity?

A.—But all that money which you pay to the schoolmasters is raised by the local bodies from local rates The Corporation of Bombay pays for primary education, and such expenditure cannot materially affect the provincial budget.

The President. *Q*—The point is, do these differences in the conditions of the provinces make it desirable to spread the basis of division as wide as possible? I am not suggesting anything like the old divided heads, which gave an arbitrary share to the Central Government of taxes fixed by the provinces at their own discretion, but it seems to be a different thing to divide the yield of a tax imposed at a uniform rate

A.—Take an exact case Down in Madras the Madras Corporation has got a right to impose additional income tax and the Madras Municipal Act, which applies to the whole province, says that any Municipality in the Madras Presidency can, with the concurrence of the Government of Madras, do the same thing The Government of India would step in immediately, if you allowed a local body to impose the tax, and say it would limit the rates which they might raise in the future

Sir Percy Thompson *Q*—What is the objection to a provincial authority or possibly a local authority imposing a tax for its own needs?

A.—It reduces the amount of profits remaining in the hand of a person which you may tax.

Q—That surely does not carry it very far All taxes are paid out of income?

A—It does reduce the amount of the profit available for direct taxation

The President *Q*—But are not the local authorities levying much the same thing in the shape of profession tax?

A—That is not necessarily an income tax at all In many cases it is a fixed amount per profession. It is not a percentage of income

Sir Percy Thompson *Q*—Let us suppose that your Imperial income-tax is 19 shillings in the pound. Does it matter to the Imperial Government whether they get the same amount by means of income-tax or by some other means?

A—Not a bit. But what are the other taxes that they can get?

Q—As long as they get the tax of 19 shillings in the pound out of the taxes of the same people, though it may be distributed differently, it does not matter whether you get it by means of an additional tax or by the existing taxes

A—If the *centime additionel* is a fixed *centime* But is it going to be a fixed *centime* or a varying rate?

Q—I think there is something to be said for limiting it by the Central Government

A—There is another difficulty about it I personally have no objection to the *centime additionel* except this What particular income are they going to tax? Who is going to get it? Would Bombay, for example, get this *centime additionel* on all the taxes collected in Bombay city?

Q—For the sake of argument, I will say yes

A.—But the whole difficulty as regards income-tax is that the place of collection is not necessarily the place where the income is earned or even where the taxpayer resides

Q—That is why I suggest that the *centime additionel* is more suitable for other taxes

A—Yes.

Q—One more question about the terminal tax levied through railways for municipalities.

A.—The tax was first levied at Cawnpore It was imposed originally to take the place of octroi This octroi was a tremendous hindrance to the trade and the loss to trade was far greater than what the municipality received

The amount lost through octroi was so enormous that the traders themselves asked for this tax to be imposed. It is a very simple duty It is to all intents and purposes a small percentage of the freight charged by the railways It was only introduced in order to remove obstacles in the way of trade. As regards octroi, the traders complained of the loot which was given in addition to what they paid to the municipality. It was something enormous, about 3 or 4 times what they paid for octroi, so they asked for this system of terminal tax on all goods that passed through the railway station.

Q—Did the octroi cover the goods coming by train?

A—Yes.

Q.—Then the terminal tax covered goods coming by train and also goods going out by train?

A.—In some cases only. In Cawnpore all goods coming by train are taxed but only a few articles going out by train

The President *Q*—It has been practically abolished?

A—Not the terminal tax. It is continued as a tax because it is a lesser evil than octroi.

Q—Have you heard of cases—particularly in the cotton districts—where the tax is levied in a way which makes it practically a transit due?

A.—I do not know of such cases.

Q—In cotton districts, does not this tax really fall on the cotton and nothing else?

A—It has only recently been introduced in place of octroi. It taxes traders as well as producers There is no refund.

Q—Is not the present position this? The Government of India originally allowed this tax only to replace octroi Since then they have made an amendment in the schedule which enables Local Governments to impose it wherever they please

A.—In the original schedule, the imposition of the tax was confined to cases where it was to take the place of an existing octroi

Q—Is it a fair thing that the discretion of Local Governments should be restricted in that way?

A—The only reason why they restricted it at that time was this, that they held the view that the terminal tax was not a sound tax to impose but was less evil than octroi

Q—Would it not have been sounder to give a time limit within which they must advance to a system of direct taxation?

A—I suppose they ought to, but they will never do it. I do not think they will ever care to have direct taxation.

Q—But you have some provinces where they have got direct taxation?

A.—You have Bengal, where there is no octroi. I think it is impossible to imagine the time when the northern municipalities will abolish indirect taxation and rely wholly on direct taxation. The smaller municipalities and towns have direct taxation, but the larger municipalities still derive a considerable proportion of their revenues from terminal tax or octroi

Sir Percy Thompson. *Q*—It seems to me rather extraordinary. I hope my calculation is right. In the United Provinces the amount paid by way of local taxation was one-tenth of a rupee per head per annum?

A—Yes, it is a very low rate of taxation. But this whole question was threshed out in the United Provinces by a Committee This Committee recommended the abolition of octroi in all municipalities But while its place was to be taken in the smaller towns by direct taxation, in the larger towns they recommended that the direct taxation must be supplemented by the terminal tax. As a matter of fact, even a big town like Allahabad has not

even now replaced octroi by a terminal tax. The reason is that except in large centres of through trade, you cannot get the same amount from terminal tax as you can get from octroi So they have still got octroi in the capital of the province I do not believe they will ever abolish it.

The President Q—So far as the railway companies are concerned there is no objection to terminal tax?

A.—No, the railways have always objected to it; it is really an addition to the freights and reduces the margin available for variation of freights

Q—Where a municipality is the centre of a particular trade, it practically amounts to a transit duty?

A—It is a transit duty in Cawnpore, which is a big collecting and distributing centre The amount paid by the piecegoods trade there is very large and that is almost entirely through trade.

Q—In these circumstances, the tax is a thoroughly bad tax?

A—It is certainly much better than the old octroi tax.

Sir Percy Thompson Q—Do you think that, generally speaking, in Northern India people would not stand direct taxes for the funds that are necessary for local purposes?

A.—It took three years in Cawnpore before the Municipal Board would agree to impose a water rate on the annual value of houses to meet the cost of the water-supply

Q—All for the sake of one tenth of the rupee?

A—It was not even that It was a very low rate It is working perfectly all right now

Dr Paranjpye Q—Is there any movement to-day also against terminal tax?

A—I do not know If you want to get any idea as to what the views are up north about octroi and direct taxation you have only to read the report by Mr Hope Simpson's Committee

The President Q—It has been pretty generally admitted that if the country is to be taxed further for local development, there is ample scope in the local rates

A—They have not been touched and there are ample untouched resources there Outside municipalities you have got the local cess for District Boards which has not been touched for generations.

Sir Percy Thompson. Q—But in the town you say they will not stand anything which is in the way of a rate?

A—I say there is enormous scope there, but direct taxation is unpopular

The President Q—Has the United Provinces started anything corresponding to this profession tax which they have got in the Punjab?

A—There are several different forms of towns in the United Provinces. There is the municipality, the notified area and something below that Each has got its own form of taxation In the smaller municipalities, the notified areas and the lower formations there is a tax called a tax on circumstances and property

Q—Is it practically a poll-tax?

A—No It is a very simple thing Suppose the members of the committee meet together and decide to spend 4,000 rupees Then they decide that if so and so can pay Rs 400, so and so can pay Rs 200, and so on It is not an income tax at all and is done in a very rough and ready manner

Q—We were told that the Punjab tax was imposed by the District Boards and everybody pays it right down to the cooly at the rate of 2 rupees per head

A—That is what they call chaukidari tax We have also got this tax in the United Provinces It was originally raised in order to pay the village watchman Afterwards it was expanded to include expenditure on sanitary arrangements It is really distribution of expenses among the people.

Q—If a District Board can carry it down to a man with an income of Rs 30, it amounts practically to a poll-tax?

A—Not quite. The only poll-tax that I know of is the Burma one. There is a definite poll-tax in Burma

10th December 1924.

Delhi.

PRESENT :

Sir CHARLES TODHUNTER, K C S I, I C S, President.

Sir BIJAY CHAND MAHTAB, G C I.E, K C S I, I O M, Maharajadhiraja Bahadur of Burdwan

Sir PERCY THOMPSON, K B E, C B.

Dr R P PARANJPYE

Mr. C. F. STRICKLAND, I.C.S., Deputy Registrar of Co-operative Societies, Punjab, was examined and gave oral evidence as follows:—

The President Q—You are Deputy Registrar of Co-operative Societies?

A—Yes, Sir.

Q—You have been on special duty for making inquiries into co-operative matters in some European countries like Italy, Holland and England?

A—I went to Italy, Belgium and Holland and also to the Scandinavian countries on those occasions

Q—Did your inquiries there lead you to a knowledge of the condition of the poorer classes resorting to co-operation and of the effect of taxation upon them at all?

A—I was able to form a general impression of the condition of the poorer classes, but am not in a position to give detailed figures.

Q—You are a member of the Punjab Board of Economic Inquiry?

A—Not at present, but when I return I shall be a member.

Q—Can you give us any assistance in assessing the value of the existing statistics in India for the purpose of forming an estimate of the national wealth?

A—I do not think I can, I am not at present familiar with them

Q—Have you given your attention to the question of the processes that would be necessary in order to arrive at such an estimate?

A.—Yes, I do think that it is impossible to base an estimate in view of the diversity of conditions all over India on anything except a large number of local, detailed and careful inquiries. Many inquiries such as those which are being carried on by the Punjab Economic Board should be made

Q—Would the result of such an inquiry help you to arrive at a composite picture of the economic progress of the country?

A—What you would get would be a mosaic picture Whether you can deduce from that any general conclusions, one cannot be sure Only the mosaic is there but it will not help you to say that what is ascertained in one place will apply to all parts of India.

Q—And would such an inquiry help to show where the taxation is pinching particular classes?

A—In some cases it would; for instance, in the agricultural classes. But in the case of the commercial or salary earning classes, I do not think that an inquiry into their conditions would show where they are touched by taxes, because the burden of taxes, at all events on the salary earning classes, is much more indirect. It would not appear in their accounts.

Sir Percy Thompson. *Q.*—In what way is the tax on the agricultural classes direct?

A.—Because it falls on the land, which you can absolutely estimate as being held by one man and you can say where the land revenue is falling.

Q.—You mean taxation by way of land revenue?

A.—Yes

Q—You think that it is a tax and not a rent?

A—I think the point is immaterial for the purpose of ascertaining where the taxation is pinching Do you mean to exclude rents from the process of taxation? I think that in estimating the condition of the agricultural classes you must take into account all burdens which fall upon them whether they are technically rents or technically taxes.

Q—What I mean is this As between a man who has land and one who has no land, you would expect the man who has land to pay something for it He has got the use of an asset and he naturally has to pay a rent for it, while the man who has no land does not pay rent, and therefore by charging him you put him at a disadvantage as compared to the man who has land?

A.—It seems to me that the difference between 'rent' and 'tax' is a problem for the Committee to decide

The President *Q*—Does your experience in the Co-operative Department give you any materials for assessing the extent of that burden?

A—In a general way, not very much in detail For instance, the Co-operative staff in the Punjab are required every year to analyse the loans given during the year From that we discover what proportion of the loans are given for land revenue We also have occasion, when a man fails to repay his dues to a society, to inquire into his circumstances, and from time to time reports come up from the staff that such and such a man really could not pay because he could not make his agricultural holding an economic proposition But then you have to take into account his personal industry and knowledge I do not think my experience enables me to give any general estimate I should like to know a little more clearly what kind of estimate is required Do you mean an estimate of the total profits of agriculture or an estimate of the economic holding? The expression seems to me a little vague The ordinary estimate of profits made from land is better made by the Settlement Officer than by the Co-operative Officer We actually do use his estimates in certain respects We have a register of loan limits in every society in the Punjab, and one of the standards for fixing a man's limit of borrowing is so many times his land revenue, say 15 times in some cases, in others it goes up to 30

Q—Do you find that the surplus which he is able to apply to the repayment of the loans is more or less than it would normally be if the settlement calculation were correct?

A—If I may say so, it is a very dangerous question, and if I were to answer that without a great deal of qualification, I think I should be doing myself an injustice and a disservice to the Committee In a general way I can say that we find that a man can repay more than 15 times the land revenue assuming that the land revenue were based on 15 years purchase On that basis he ought to be able to repay 30 times the land revenue We actually find that an industrious man can pay back sums of debt that exceed any practicable multiple of the land revenue that you can take I know the case of a village, in which the members of a co-operative society paid back Rs 3,000 debt each at the rate of Rs 12 per acre for 10 years, and the assessment per acre was Rs 3

Dr Paranjpye *Q*—Was this debt incurred for agricultural or domestic purposes?

A—Mostly for extravagance and owing to the difficulties in which they fell with money lenders

Q—It was not a productive debt?

A—Broadly speaking, in the Punjab there is no productive debt

Q—Was it due to any current expenditure like manure etc?

A—Practically no manure is used in the Punjab

Q—Or for agricultural implements?

A—A millionth of it would be for that

the annual value, that amounts to 150 millions. Therefore, 150 millions is the limit of taxation you could impose. Now the whole budget in the United Kingdom requires something like 800 millions. I think your criticism is fair to this extent that taxation has gone up far more than the value of the land. Taxation is something like 4 to 5 times more than what it was before the war, where the value of the land has not certainly doubled. Therefore, I do not quite see how you are going to raise taxation on the unimproved land, because if you absorb the annual value, you will not get the amount required for the expenditure of the country.

A.—I would suggest in answer to that that your 150 millions may now perhaps be 300 millions roughly. Then there would remain income from post office and excise. If these do not give the total needed, you must treat post-war taxation as a special case, and impose other taxes temporarily.

Q.—If you are going to abolish Customs how are you going to collect Excise? Would you allow foreign spirit to come in?

A.—I should not have said "Excise". I should have said "Charges imposed for reasons of health or police". Wherever you impose an excise for reasons of health, you would retain the customs, but not for reasons of revenue. The object would be different. It might be collected through an excise at the ports. I am misusing the word there.

The President. *Q.*—It is a tax on consumption.

A. Consumption of certain articles of which you wish to control the consumption. That would bring you up to something like 500 millions. Is not Excise something like 200 millions?

Sir Percy Thompson.—It is more. It is 240 millions.

A. Post Office?

Q. About 40 millions.

A. Is that all? I am still below the mark. I am only a little over 600 millions. At present you have to take the post-war situation.

The Maharajadhiraja Bahadur of Burdwan. *Q.*—And you include income-tax also in addition?

A. No. I would abolish income-tax in those circumstances. I am only speaking on a theory which I do not myself support, of a single land tax in which there would be no other tax but charges for services supplied and control of certain articles.

Q. Do you expect that under your system of a single tax the expenditure of Government would be very much less?

A. There would be a considerable reduction of expenditure in the collection of customs and taxation.

Sir Percy Thompson. *Q.* You differ a little from Henry George because Henry George ...

A. I disagree with his view totally.

Q. It seems to me that it is quite arguable till you come to figures. The weak point of Henry George is that when you absorb the whole of the unimproved value you still have not got the sum of money which will carry on any existing Government.

Sir Percy Thompson Q.—In what way is the tax on the agricultural classes direct?

A.—Because it falls on the land, which you can absolutely estimate as being held by one man and you can say where the land revenue is falling.

Q.—You mean taxation by way of land revenue?

A.—Yes.

Q.—You think that it is a tax and not a rent?

A.—I think the point is immaterial for the purpose of ascertaining where the taxation is pinching. Do you mean to exclude rents from the process of taxation? I think that in estimating the condition of the agricultural classes you must take into account all burdens which fall upon them whether they are technically rents or technically taxes.

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Q.—Was it due to any current expenditure like manure etc.?

A.—Practically no manure is used in the Punjab.

Q.—Or for agricultural implements?

A.—A millionth of it would be for that.

The President Q—On the subject of manure, is it true that manure is not needed in the Punjab?

A—The manure which the cultivators get from their own cattle is used, but it is altogether insufficient to cover their land.

Q—Do you suggest that chemical manure is not much used in the Punjab?

A—At the present moment the Agricultural Department in the Punjab, I think, are not prepared to recommend any chemical manure

Dr Paranjpye Q—Not even for sugar cane?

A—I do not think they recommend any artificial manure I know from reports that it is very largely used in the Deccan and Madras, but it is different in the Punjab

The President Q—Can you give us your general impression of your comparison of the conditions of the Punjabi cultivator with those in European countries which you visited?

A—I can only give it as the impression of a man who has travelled in European countries, but I have not been to many peasants' houses and examined their conditions in detail But all that I can fairly say is that the condition of the ordinary peasant in Sicily tends to be lower than the condition of the peasant in India. In other parts for instance, in North Italy and Belgium, I should say the conditions were very much on a par with the Punjabi land-owning small cultivator In many cases the Punjabi would be better off on irrigated land, allowance being made for differences of climates The Scandinavian peasant and the North Dutch peasant appears to me to be in the position, broadly speaking of the Punjabi on irrigated land, a fairly prosperous man He differs in being thrifty as compared with the Punjabi who tends to fall into unproductive debt

Q—You are familiar with Major Jack's comparison? Would that apply, generally speaking, as between the Punjabi and the Italian peasant?

A—If you mean as regards output and taxes, his general conclusion that taxation is much lower in the Punjab than in other countries is obviously true It is much lower, infinitely lower, than in many foreign countries

Q—He says in one place of the cultivator of Faridpur "the income of the cultivator is equal to that of the cultivator who pays six times as much in taxes "?

A—My general impression is—I could not say anything about the South Italian, but in North Italy it is true that the taxes paid by the Co-operative Labour Societies and land owning societies are infinitely more than those paid by the Punjab cultivators, but I am not in a position to give figures

Q—He quotes a description of the food of an Italian village He says it is "for all practical purposes that is a description of the food of the people of Faridpur without the comfortable addition of fish in abundance to their daily diet ".

A—I should have thought that the Italian ate more meat, especially in the North

Q—He says that the Italian is a vegetarian not from choice but from necessity?

A—I have not eaten in the houses of Italian peasants, but I have eaten in small inns side by side with the people But there the Italian peasant who goes to a meal in the inn is slightly better off than those about whom Major Jack speaks

Q—If you were told that one in three of the population is either starving or the whole population is getting only a third of the food they need, would you regard that as having any truthful application to the Punjab peasant?

A—None whatever I have been travelling amongst the people almost the whole of my service, and I cannot agree with that suggestion

Dr Paranjpye Q—Even of the labouring population in the villages?

A—No

Q—Not even among the manual labourer?

A—Very few statistics are available, but I suppose the majority of the agricultural labourers in the Punjab live on a share of the land of which they are part owners For instance, the ordinary Hali in the Punjab as a rule is

paid a share of the profit, at least in the central districts I would not say that about the whole province The sweepers and others live partly by harvest labour and partly by road labour, and very often by spinning or some other industry, and I should not be inclined to say that even one-third of them are starving.

Q—Can you say anything about the urban labouring classes?

A—I cannot speak with confidence May I here say one word about the urban classes? One of the questions that I particularly requested the Punjab Board of Economic Inquiry to deal with was to take up the family budgets of labourers in the mills, but they have not yet reached that stage

Sir Percy Thompson *Q*—With regard to the Punjab Board of Economic Inquiry, what stage has it reached at present? Has it issued any interim report?

A—There is a permanent Board which from time to time takes up small questions suggested by the Members It also issues reports There was an inquiry which I suggested—an inquiry into the income and expenditure of clerks getting Rs 50 and less, and a number of other inquiries into given cases were made with results which showed that the expenditure exceeded income in practically every case, and the meaning of that is variously interpreted.

The President *Q*—Have not similar results been found in estimated family budgets in the case of people of a much higher status?

A—I believe some budgets in an inquiry made last year showed expenditure which would be justified but is not made

Q—You say that you will be glad to see a single tax on land or on income substituted for the salt duty, water rates and customs as well as for some minor charges Would you develop that idea?

A—It seems to me that in a country of comparatively illiterate people, the first thing in regard to taxation should be simplicity and intelligibility. It is not intelligible as it is at present, in my opinion, to the people I am not in principle a single land taxer, but the only advantage of putting a single tax on land is that land cannot run away In principle it appears to me immaterial whether you put your single tax on land or upon income, but while there is no substitute for land, there is a substitute for everything else That is the only argument which I have to advance in support of the single tax on land, and I think that the conditions would very soon adjust themselves The land holder would have his objections for a time, and it may not be practicable to introduce it at once As an alternative to the tax on land which cannot run away, I would suggest a single income tax Abolish all other taxes which are now imposed except those required for hygienic reasons or for reasons of police For instance, gun licenses must be charged for, and excise might be maintained for hygienic reasons Then there would remain those charges for services rendered such as railways and post offices When customs are imposed for protection, I would treat them as imposed for national reasons, good or bad But I would have no customs for revenue

Dr Paranjpye *Q*—What would be the intensity of taxation on land according to your scheme as compared with the present?

A—That is another question Technically for the moment it is a theoretical scheme, and whether it can be applied to India is quite another matter The only case where I had occasion to inquire into the results was recently in Denmark where a tax on the unimproved value of land has been imposed in addition to an income-tax It is estimated there by the single taxers—it is put forward as an argument to win political support—that if all the other taxes were abolished and there remained only a tax on unimproved values, the small cultivator would pay very much less than what he is paying at present The middle class farmer would pay a little more and the owner of the town property would pay immensely more, while on the other hand he would be relieved of income tax and so forth

Sir Percy Thompson *Q*—If you put a tax on the unimproved value of land, you could not possibly put it at a higher rate than the annual value of the unimproved land?

A—No, and certain land will go out of use

Q—Now under the Finance Act of 1909 the total unimproved value of the land in Great Britain was calculated by a separate valuation of each unit at three thousand million pounds If you took 6 per cent on that as representing

the annual value, that amounts to 180 millions. Therefore, 180 millions is the limit of taxation you could impose. Now the whole budget in the United Kingdom requires something like 800 millions I think your criticism is fair to this extent that taxation has gone up far more than the value of the land. Taxation is something like 4 to 5 times more than what it was before the war, where the value of the land has not certainly doubled Therefore, I do not quite see how you are going to raise taxation on the unimproved land, because if you absorb the annual value, you will not get the amount required for the expenditure of the country.

A.—I would suggest in answer to that that your 180 millions may now perhaps be 300 millions roughly. Then there would remain income from post office and excise If these do not give the total needed, you must treat post-war taxation as a special case, and impose other taxes temporarily

Q.—If you are going to abolish Customs how are you going to collect Excise? Would you allow foreign spirit to come in?

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A.—No I would abolish income-tax in those circumstances I am only speaking, on a theory which I do not myself support, of a single land tax in which there would be no other tax but charges for services supplied and control of certain articles

Q.—Do you expect that under your system of a single tax the expenditure of Government would be very much less?

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Sir Percy Thompson *Q*.—You differ a little from Henry George because Henry George . .

A.—I disagree with his view totally.

Q.—It seems to me that it is quite arguable till you come to figures The weak point of Henry George is that when you absorb the whole of the unimproved value you still have not got the sum of money which will carry on any existing Government.

A.—Where, I think, he and some of his land taxers get round that is by over rating the unimproved value and they do so by saying that all agricultural improvements shall be considered to be extinguished in 40 years

Q.—That would not help very much. What they say is that improvements get merged in the land and the result is that in the case of agricultural land they tax improvements.

A.—I agree

The Maharajadhiraja Bahadur of Burdwan. *Q*.—May I ask what would happen if everybody improves his land to the utmost extent? Where would the State get its dues from?

A.—From the unimproved value.

Q.—Supposing all land is improved?

A.—You would tax improved land also on its unimproved value—on the value that it would have if it were not improved It would be a sort of ground rent.

To the President. A.—I would not advocate a combination of the tax on unimproved value of the land with income-tax as in New Zealand.

Sir Percy Thompson Q—Would a universal income-tax be possible in India? Could you bring agricultural incomes or income derived from land under a general income-tax?

A—Not on an absolutely universal system. I am trying to think out how in India you can have a single tax it would have to be adjusted to some extent to the peculiarities of the land and to the peculiarities of the people who either in some cases are illiterate or in other cases are more disinclined than in Europe to state the clear facts as to their income I think you would have to do it in this way. You would have a land settlement as at present and you would not assess the revenue on land but you would value the net profits You then would have for that area of land a potential income

The Maharajadhiraja Bahadur of Burdwan Q.—What would be the principle of assessing the net profits?

A—Very often it will be commensurate with cash rent.

Q—The man who cultivates his land or has it cultivated has got certain expenses to meet I take it you would deduct those expenses and then arrive at a figure which you would consider as the net profit Then, from that, I take it you would have to deduct the amount of rent which he now pays for that land.

A—No.

Q—What I mean is that in calculating the tax you would have to deduct the amount of rent which he now pays

A—I would include it I would reckon the net profits of the land prior to the payment of rent If you are considering what a plot of land will produce you deduct only the expenses of cultivation.

Q—If you are applying the theory of a single tax on that land, you would also have to calculate the ratio of land revenue paid?

A—There would not be any land revenue paid

Q—Supposing the net profit on a land at present is Rs 100, that man may pay Rs 25 to the Government as land revenue His actual net profit on that land therefore is Rs 75. I take it that when you calculate a single tax you would calculate on a Rs 25 basis which was his basis of payment *plus* anything else

A—If the income of the land after paying the actual expenses of cultivation was Rs 100, I would take Rs 100 as the profits of that land

Q—And on that at what rate would you calculate a single tax?

A—That would depend on what rate you want to impose You can impose either 1 per cent or 99 per cent or 100 per cent

Q—You propose a single tax You do not seem to have taken into account the fact that the man who has the land in the Punjab or the United Provinces is not the man who ordinarily pays your income tax In calculating the tax on a man who only pays land revenue how can you include such things as salt duty, water rate and customs?

A—It is possible that I have not been understood I would suggest the abolition of such things as salt duty, water rate, and customs for revenue Then I would take the proceeds of a given plot of land after deducting the cost of cultivation I would pay no regard to whether those proceeds go to one person or are divided between the landlord and the cultivator So far as we are concerned with the profits of the land, it is all profits after deducting the actual expenses of cultivation Then it would be a matter for Government to decide what rate they wished to impose But as regards the valuation for taxation, the valuation would be Rs 100 if that was what remained after paying the expenses of cultivation

Q—The ordinary cultivator in the Punjab is a small landlord very often himself Supposing he were to aggregate what he gives to Government, whether it be in the shape of salt duty, customs or other minor charges and the land revenue that he pays, water rate, etc Supposing he found that out of Rs 100 which is his net income he only gives, say, Rs 40 and keeps for himself Rs 60. Under your system of a single tax, which would replace all these taxes, if he has to pay more than Rs 40, of what benefit is a single tax to the cultivator? That is what I cannot understand

Sir Percy Thompson.—It may be a more equitable way.

A.—I do not see that you need take the present amount paid by the tax payer as necessarily equitable We have at present a complicated system of various taxes My object would be to sweep them away and impose one tax. We cannot at this moment say whether that tax would come to more than the present total of the charges which that man pays or less, but it will have the great benefit of simplicity and you would know exactly what you are laying on each person

Q.—I think that the benefit of simplicity will be on the part of the Government, not on the part of the man who pays The party who pays may have to pay through six agencies, but if his total payment becomes more by a single payment than by six payments, he must rather welcome the six payments than the single payment.

Sir Percy Thompson *Q*.—Let us suppose that you found that the total is 500 millions and you found that the State wants 100 millions for its budget You would then impose a tax of 20 per cent There is just this difficulty. Where rent was paid, I suppose you would allow the cultivator to deduct the Rs 20 applicable to that rent?

A.—I would put the charge entirely on the man who is getting the income You would have to divide it of course according to the rent

Q.—You would charge the cultivator Rs 20 on Rs 100 and you would allow him to deduct at this 20 per cent rate from the rent he pays?

A.—Yes

Q.—There is just one criticism. That would mean a flat rate tax for all incomes

A.—Yes I want to put this tax, even of the land, not on the piece but on the individual But you must do that by valuing the profits of the piece and then take the person and say . "You are holding so many pieces and therefore your income is so much We will tax you on that income"

Q.—Take the instance I gave The State requires for its purposes 20 per cent It wants a tax of 4s in the £ on the net profit I do not see how you can vary from the 4s rate according to the circumstances of particular individuals because you have assessed the net profits at Rs 100 the tax being Rs 20 Now, if that tenant is going to pass on the tax applicable to rent that he pays, he could only do that at that rate of 20 per cent because that is the rate he pays If you are going to put differential taxes, you would have to look into the circumstances of that land owner. The land owner will pay the 20 per cent of his share He may also have some dividends

A.—I would take the man and say: "He gets so much from this land; the cultivator gets so much and the land owner gets more dividends and rents Since his income is over 5,000 he will pay at 5s This cultivator has only 500, therefore he pays at 1s in the £"

Q.—You would have a system of graduation *plus* super-tax. For agriculturists you assume an empirical income: not what he actually made, but you would assess in an empirical way on what the land ought to produce

A.—If I found he was below the minimum I would exempt him

Q.—Very much the same as they do in England at present in the case of agricultural incomes?

A.—Yes I was not aware that it was so in England.

Q.—The farmer is assumed to make profits. It used to be 1/3 the rent and then during the war it was double.

A.—The rent is assumed to be 1/3 of the profits? I would use that empirical system for land. With regard to other classes of persons in this country who do not keep accounts, you would again have to have empirical assessments rather on the lines of the Indian profession tax I think that would have to be assessed by local authorities as low down as you can go with any assurance of integrity—just as you do in many municipalities at present in the case of taxation on a lawyer as such or a doctor as such. I would do the same for all persons earning an income which does not require them to keep books.

Q—Assessing the value of land in the way you propose, is it not an enormous administrative problem?

A—It is done every 30 years in the Punjab It is done in a way every year Almost every plot of land is worked out Every plot of land is separately assessed though as a matter of fact, what is done is, to take the whole village, divide it into blocks of land and classify them as to whether the land is good or bad and then assess at a flat rate for that block That is the usual method But I believe there are parts of the country where they go still more into detail and assess each man's holding I would simply extend that system to the profession tax of the people who keep no accounts and since it is much more difficult to arrive at the net income of such persons, you would have to follow the system of saying "We assess you at so much and if you find that it is too much, next year keep proper accounts", and you would go on raising the tax every year until he kept accounts

Q—You have solved the problem, wholly or at any rate partly, of taxing the non-agriculturist It might or might not be satisfactory A new problem according to your theory would arise as to the assessment of the profits on land

A—That would be by a change of the method of imposing the tax The profits are discovered at present by the land revenue.

Q—Does land revenue bear a definite relation to the profits?

A—It is supposed to be half the net profits It is as a matter of fact a good deal less

Q—If you base income tax on that, you would have to have a re-settlement more than once every thirty years You could not condemn a man to pay for 30 years on an assumed profit Circumstances change

A—I think you might adjust it according to a weighted index of prices The sale price of wheat and cotton in one year having gone up, all areas of land in districts which were supposed to depend on that index would be raised so much You would have to have a different index for irrigated and unirrigated areas

The President *Q*—Would it be practicable to bring the land revenue of the districts that were settled some years back up to a standard level based on the rates in the districts last settled? Could you standardize the land revenue in such a way?

A—I think it would be very interesting and well worth trying

Q—If you could do that, could you then, instead of bringing in your scheme of assessing income-tax individually, maintain your standard of land revenue and levy an income-tax on agricultural incomes which were above the exemption limit, allowing the land revenue to be deducted from the income tax?

A—My scheme has this advantage that whereas the present assessment is on the land and not on the persons, my scheme assesses on the persons; you would have to add graduation and exemption At the present moment there is no exemption.

Q—Under the scheme that I was suggesting, you would get the exemption inasmuch as the income tax would only apply to incomes above Rs 2,000 Your standard land revenue would remain.

A—You would have income tax of the person as at present, would you?

Q—In the same way as you ascertain the other income for income tax purposes.

A.—You mean you would abolish the land tax?

Q—Could you begin with standardizing the land tax by the weighted index? Suppose, district A was settled last year You would make a sliding scale for the last 29 years and the other districts would have their assessments increased proportionately up to the level of district A.

A.—It might be done.

Q—You could then impose something in the nature of super-tax by taxing agricultural incomes in excess of Rs. 2,000, ascertaining the income of the person by the ordinary methods.

A.—That could be done.

Q—You would have to deduct the land tax from the income-tax when you assessed it?

Sir Percy Thompson Q.—If you have in existence a land revenue and an income-tax, you would have to deduct land revenue from the profits and then assess income-tax on the balance?

A.—Yes

Q—Would you impose your income tax on agricultural incomes at a lower rate than the income-tax on trade? In view of the fact that these people pay land revenue, should they be entitled to a lower rate of income-tax.

A—It is a thing that certainly could be done With a universal income-tax such as I suggest you could not only graduate but you could also differentiate

Q—For the purpose of differentiation it is suggested that you should take off the land tax

A—I think that would produce more uneven results It is as though a man had three properties from which his income is derived and you assess on the net income of two of them and then allowed him to deduct all his expenses of the third one from the tax imposed

Q—You would prefer a differential rate of tax?

A—That would be quite possible.

Q—Any consideration of land revenue would depend on generally whether you consider land revenue as a rent or a tax?

A—I should base it more on the question whether you find it necessary to maintain agriculture

Q—You don't put a lower rate of tax on farmers' profits in England because they pay rent?

A.—No, but you do reduce his agricultural rates on the ground that he gets practically little benefit from the services which they support

Q—No, I think in England you remit the agricultural rates because he does not to the same extent get the benefit of the local expenditure?

A—Yes With regard to the adjustment, if they can show by proper accounts that their income is less than the empirical assessment that is made on them, they should be allowed to have reduced assessments

Q—In regard to that, I do not quite follow how it can be done

A.—We have it at present in a number of municipalities In one or two municipalities I knew, before I went off into this side line of co-operation, what one used to do was to form under the presidency of the ward-member local groups in what is called a *mohalla* We very often find that persons following one profession will all be living in one particular locality You would form a sub-committee for each profession containing a substantial representation of that profession and they would class the members of that profession into so many classes and then the Municipal Committee, very often after discussion with the sub-committee would ask "Well now, what do you think is a fair assessment on all the lawyers? 10,000 or 5 000 or 15,000?" A certain amount of haggling will go on and eventually a compromise would be reached First of all you begin by the usual method, assess what you are going to put on in the lump, and then divide it up among certain classes The Committee will say· "You are all respectable men, we will put you in the first class" You know who are the big men Sometimes you will find men, who want to maintain their status, wanting to be put in the first class Then you have a second class and a third class consisting of very poor men You have much more certainty in dealing with agricultural land The land cannot run away

The President. Q—Is the profession tax, which is now levied by District Boards, worked in the same way?

A—I imagine that it is similarly worked by District Boards. But there is a bit more of official assessment. Probably the local Magistrate, the Tahsildar, calls up to his headquarters groups of such and such a profession and does it in the same way.

Q—Under your uniform tax would you lower the exemption, and if so, to what?

A—To Rs 250

Q.—On what principle is that?

A.—The limit of exemption is empirical always I have always reckoned Rs 20 as the minimum on which a poor family can live.

Q—You include among the other things to be abolished the water rate?

A.—I would charge only the actual cost At the present moment there is a large profit I would charge the cost of maintenance

Q—Take a case like the Canal Colonies You give an enormous unearned increment to the landholder?

A—Yes

Q.—Are you not going to recover anything from him?

A.—You tax his income.

Q—Is it fair to do so under the present conditions?

A—No, the thing that I would like to do in order to abolish a number of thirsty subordinates is to fix the land and water-rate as in Egypt. I was very much impressed to learn that in Egypt land tax and water tax are included together.

Q—The same is done in Madras where land is assessed as wet But even so you still give the owner a large addition to capital value which he has done nothing to earn Would it not be fair in addition to levy a betterment fee which you might spread over a term of years in order to recover a share of the improved value of the land?

A.—Make a man pay as it were a capital levy. It has been done very often in the Punjab by requiring people before they are given water to surrender so much of their land to Government

Q—Under what law has that been done?

A.—By agreement, I understand negotiations are going on even now

Q—In certain places they have levied what you call an inclusion fee?

A—You may describe it as blackmail As regards the assessment, you simply say that since the selling value of this land has gone up, therefore we shall take account of that I am sure in practice it has been done by the Punjab Settlement Officer by actually taxing this land at a much higher rate. You will find that the land tax in irrigated land in the Punjab is materially higher than it is on unirrigated land

Q—Is it not a difficulty in a scheme of that sort that you cannot charge straight off 50 per cent of the produce of the land and the water? Your Settlement Officer may base his settlement on half the net profits for the land *plus* the water, but ten years hence that land will increase enormously in value?

A—The term of each settlement is 30 years, but frequently it is 10 in newly colonized areas

Q—Is that settled as wet?

A—It is settled as dry subject to water rate, but in practice that dry assessment is obviously a great deal more.

Q—There is a great deal of agitation going on about an increase in water rate?

A—The settlement has no relation to the water rate

Sir Percy Thompson *Q*—Supposing you have a piece of land, on which the net produce is worth Rs 200 a year, of which half is paid by way of land revenue to Government, so that the cultivator gets Rs 100 and the Government gets Rs 100 and supposing you pay a water rate which increases the net produce from Rs 200 to Rs 300, would you then take Rs 150 by way of land revenue?

A—No, when assessing his net produce you take into account what he pays for water. His gross profit may have been Rs 1,000, and hitherto his expenditure was Rs 800, so that his net profit was Rs 200 Now his gross profits have probably gone up from Rs 1,000 to Rs 1,500, but his expenditure including water rates has gone up to Rs 1,200 As far as my recollection goes, it is so It is 15 years since I did any settlement work, so I cannot be sure

The President Q—I notice that Major Jack's estimate of the taxation of the people of Faridpur includes profits from State railways and miscellaneous receipts

A—I take it he is talking there really of what he reckons as burdens on the people

Q—Are they burdens on the people? He says that people are getting cheaper railways.

A—Nevertheless he means that Government is making a profit. Those people pay for travelling on railways, and I think Government is not normally expected to make a profit It is surely a burden, it may be a thoroughly justifiable one, but it cannot be denied that it is a burden It is a payment to Government for something more than a mere service

Q—Do you accept the definition of tax as something which the tax payer is compelled to pay for which he gets no specific return?

A—Specific? If that is the definition, then I certainly agree; that is, he gets a specific return for travelling by rail at the minimum cost necessary to maintain the railways I am quite willing to accept the definition of tax

Q—You would maintain certain duties on consumption?

A—Yes

Q—What would you tax under that head?

A—All drugs and fire arms, but I leave it open to levy a tax on anything that can be justified on grounds of health, on grounds of safety and on grounds of public interest If a country wishes to adopt protection, it can impose customs for protection. Personally I am a free trader

Q.—You would not impose duties on consumption as such?

A—No, they are unsound because people do not feel them But I object to customs duties because of the corruption to which they give rise

Q—Is there any comparison between the corruption of the customs staff and, say, the staff concerned with the levying of the income-tax or profession tax or land revenue?

A—Taking the particular conditions of India, possibly not They may all be on a par I should say myself that the assessment of land revenue involves a number of small charges which are thoroughly unjustifiable but cause no embitterment, the charges illegally made for things like customs are bigger.

Q—You believe that a large amount of corruption is committed in the customs? You are perhaps not acquainted with the land frontiers?

A.—No.

Q—What would be your charge on guns?

A—It would be quite possible to have none at all as long as you maintain a licence. Theoretically in the case of guns you might have none. As a matter of theory you could use registration, provided you are thereby able to maintain the right to refuse a license to a person.

Q—Would you abolish all stamp duties on transactions?

A.—No, that appears to me to be a payment for services

Q—You would reduce them and charge only for the cost of maintaining a staff?

A.—Yes, provided your public finances can stand the loss of the tax

Q—That would not apply to a stock exchange transaction?

A—In the case of registration or even a gun licence, the extra charge is only justifiable if you cannot get extra taxation in any other way. In reality what you want to do with a stamp on a stock exchange transaction is to ensure that it is properly put through, but if you can have a free stamp put on, it would be well

Sir Percy Thompson Q—Would you absorb the whole of the unimproved value?

A.—You could keep on raising the tax. I admit that a discrepancy is inevitable between the theory and practice. If a tax is to be put on, I would allow both the Central, the Provincial and the Local Government to impose the same tax. It would be collected by the local agency. Supposing there is one income-tax, the Central Government might take one shilling, the Provincial half a shilling and the local authority a little less than that.

Q.—But surely the question of practicability is really an important matter, because you get to this position, that there is only one pound to be taxed. The Imperial Government would say that they would want 10 shillings, the Provincial Government would want 7 shillings and the Local authority would want say 5 shillings, and the whole *will aggregate 22 shillings, but there is only* a pound there.

A.—That would apply to a single tax on land, and not in the case of income tax. That is why I say a single income-tax as opposed to a single tax on land.

Q.—You would raise the whole of the revenue by Central, Provincial and Local Government by means of one income-tax. On what principle should the Central Government proceed?

A.—Let them each take as much as they like. The Central has to perform certain services, and it makes no difference whether they demand certain heads from the Provincial Government or whether they impose so much on the income-tax.

Q.—Surely you will get into appalling difficulties. Supposing the Local Government says that they want 5s. in the £, how are you going to ascertain their share of the income tax? How would you produce that 5s. in the £?

A.—It is difficult on its introduction, but once you get the scheme working, it ought to be more satisfactory.

Q.—The Central Government will have to collect different rates all over the country?

A.—The difficulty will be with the local authorities. The Central will say that they want 5s. in the £. It merely has got to be collected by the local authority and the difficulty is for them, because income is drawn from its area. You will have to define when imposing income-tax on an individual what proportion of it came from such and such a district.

Q.—*I suggest that you should abolish taxes on limited companies and simply* tax the dividends in the hands of the shareholders.

A.—That would do if everybody knew his income and was willing to state it honestly.

Q.—Of course, you would lose a large amount of money?

A.—Where you tax the source, I do think you have exactly the same defect that the Indian land revenue has in that the small person who ought to be exempt, very often is not.

Q.—We return 60 millions of income tax every year.

A.—But crowds of people do not apply, and many of them do not get the *exemption*. I do pay on my securities, and I do not trouble to get it back. It *is exactly the same in* the case of a small land-tax man who might be too ignorant to apply and get it back. You would not get enough income on the mere declaration of the people. That is why you must have the empirical method of assessment on people who are illiterate or dishonest.

Dr. Paranjpye. *Q.*—You were talking in the beginning about members of co-operative societies. Can you tell us whether we can take the members of co-operative societies as fair representatives of the general agricultural population? Or are they a better class of agriculturists, more enterprising and more actuated by prudential motives and so on?

A.—More prosperous—no, more enterprising—I should say not, prudential motives—yes. They are more moral and less wealthy—more open to moral appeals, because, as you know, the requirement for co-operative credit societies is that the man should first of all be honest and of good character. He can be thrown out on character alone.

Q.—They are not more wealthy?

... ey are as a rule in a certain amount of distress,
... ime of registration has to exercise a great deal
... o are hopelessly indebted and whom therefore

Q—Do you think that they can be taken as fair representatives of the people taken as a whole?

A—No They are, as I say, the more indebted but more willing to make an effort. They are the selected Pharisees.

Q—What proportion of the people in the Punjab are affected by the operation of the co-operative credit societies? I mean, of the agriculturists?

A—About 7½ per cent of the total population and 10 per cent perhaps of *the rural population*

Q—You were telling us that land revenue is paid by the agriculturists only?

A.—Yes.

Q—Don't you think that this land revenue has an indirect effect in regulating the price of foodstuffs?

A—It is an element in the cost of production.

Q—So that, land revenue, although it is directly paid by the cultivator and possibly by the owner, still is indirectly paid by the general consumer.

A—Like every tax.

Q.—So that, you cannot say that land revenue is paid only by the cultivator or the owner?

A.—That, I think, applies to every tax When you impose taxation, you must consider the person on whom it falls first

The President Q—You think the land tax can be shifted?

A—It goes into the price of food to some extent

Sir Percy Thompson Q—The accepted theory is that the land tax cannot be shifted because the price of food does not depend on the cost of cultivation. This rent is what you pay for the extra quality of the land over that the margin of cultivation

A—But the more land tax you impose, surely, the more you affect the margin of cultivation If you double the land tax at the present moment some of the land that is just able to get on will cease to be cultivated There is no land that is exempt from land tax.

Q—If it is an appreciable quantity, the land won't be cultivated?

A.—But there is no land that is assessed below 2 As an acre If you increase that 2 As. to 4 As some of that *land will fall out of cultivation*

Q—If 2 As is anything appreciable I should agree It may not affect the margin of cultivation if 2 As. is not an appreciable sum You cannot describe that as on the margin of cultivation

A—It does matter, because where the land is extremely dry, it produces abundant crops only once in four years when the rains fall

Dr Paranjpye. Q.—The theory of the margin of cultivation would apply more correctly to a country which mainly imports its food than to a country which produces its own food The country must produce so much food and India practically produces its own food, so that so much land must be cultivated, in any case

A—Cheaper foods will be consumed instead of dearer and the dearer are exported, as you find in Denmark, where butter is exported. I could not get good butter at all there I do not think the margin of cultivation is exactly affected by that. The value of the exports may, be.

11th December 1924.

Delhi.

PRESENT :

Sir CHARLES TODHUNTER, K C S I, I C S, President.

Sir BIJAY CHAND MAHTAB, G C I E, K C S I, I O M, Maharajadhiraja Bahadur of Burdwan

Sir PERCY THOMPSON, K B E, C B

Dr. R P PARANJPYE

Dr L K HYDER, M L A

Professor A. R. BURNETT-HURST, M.A., Dean of the Faculty of Commerce and Economics, Allahabad University, was examined and gave oral evidence as follows:—

To the President—I am University Professor of Economics, Allahabad, in charge of the Departments of Commerce and Economics By the end of this year I shall have been ten years in India Before my appointment as University Professor, I was Professor of Economics in the Muir Central College, Allahabad, and previous to this I was Professor of Statistics in the Sydenham College of Commerce, Bombay When in England, I had experience in statistical work at the Ministry of Agriculture and also at the University of London where I was Research Assistant to Dr Bowley About 1913, Dr Bowley asked me to undertake certain inquiries for him in industrial centres in England—at Northampton, Warrington and Hanley,—on the lines of an inquiry which he himself undertook at Reading These inquiries were studies in the economic condition of working class households Subsequently, I was asked by the Ratan Tata Foundation of the University of London to carry out similar inquiries in India While I was Professor of Statistics at the Sydenham College, I took the opportunity of obtaining the co-operation of the Social Service League, Bombay, and certain prominent Indians and Europeans, interested in social welfare, to assist me in carrying out a similar inquiry in Bombay city It was a house to-house investigation Although the inquiry was carried out some years back, owing to my official duties I never had the time to write my report until recently It was written while I was on leave and accepted as a thesis for the M Sc Degree of London University The results are to be published very shortly The inquiry was made in 1917 18, before the great rise in prices took place The study gives a picture of the economic condition of working class households at that time It supplements Mr Findlay Shirras' enquiry, which was purely official My inquiry was unofficial

The President Q—Have you had occasion to study the Government statistics relating to production, wages, prices and other matters?

A—Yes As Professor of Statistics at Bombay I studied the whole question and delivered lectures to my students The lectures were of course elementary but I myself had to make a very detailed study I compiled a short memorandum for the Industrial Commission at their request and submitted it to them It was published in the volume of evidence relating to the Bombay Presidency. It was merely an outline of my views I was hoping that the Committee would call upon me to supply details but I was told afterwards that they did not know much about the statistical side of the question and did not wish to ask me any further question on the memorandum

Q.—Can you take us through such statistics as are given in a book like that (handing over a book) and give us a rough idea of your experience of the statistics? Supposing we begin with agricultural production. The statistics available are of acreage under different crops, outturn of different crops, prices of different crops, and so on

A —The deficiencies in the statistics of Indian agricultural production are first and foremost, that statistics are only available for *major* crops and next, that the statistics of both yield and acreage are very defective—not so much in the case of acreage as of yield Statistics of acreage are especially deficient in permanently-settled areas; but in the rest of India they are certainly better. Further, a difficulty which one does not experience in England is that arising from the growing of double or mixed crops; this introduces complexity The deficiencies in agricultural statistics are so well known that it is hardly necessary for me to enter into the details They have already been dealt with in Mr Datta's report and in various memoranda One of these on Madras agricultural statistics was, I believe, prepared by Mr Stuart for the Industrial Commission The Cotton Committee have also gone into the question from the point of view of cotton statistics With regard to the latter I have often been informed by representatives of commercial firms such as Volkarts and Rallis that their figures are much more accurate than those of Government They do not rely on Government statistics at all, which they state are under-estimates to a considerable extent. The manner in which these firms procure their figures is through their own reporting agencies in the chief cotton tracts Not only are records kept of production, but details of every sale, the state of the weather, etc

Q—Have you any experience of the figure taken as the normal yield as a result of crop experiments?

A—Here again are figures which, in my opinion, cannot be relied on by any means It is only natural that a man will always be inclined to state that his crop is below normal When one enquires of an agriculturist in any country whether his crop is normal, he generally shakes his head Besides, the normal valuation differs from place to place.

Q—First of all, you arrive at the normal by crop cutting experiments?

A—Yes

Q—You arrive at it by looking round and seeing if it is a normal crop?

A—Yes

Q—And then you make an experiment and you get the quantity of yield per acre?

A—Yes

Q—Then you say that is 12 As or 10 As or 14 As What determines the number of annas which is taken as the normal?

A—That is very largely based on the crop experiments I think it is very largely left to the judgment of the District Officers

Q—You take a crop and say that is normal and you say that 16 As. is a bumper crop?

A—Yes

To Dr Paranjpye—In some places 16 As. is taken as the normal crop.

Sir Percy Thompson *Q*—I do not understand why your normal should not be the same in all places.

A—It would depend partly on the climate Moreover, the normal is valued (in annas) differently in each district I think you will find full details of crop-cutting experiments given in the Appendix to the Volume on Agricultural Statistics and also, I believe, in Mr. Datta's Prices Enquiry Report

The President *Q*—After arriving at your normal by crop-cutting experiments, how is the reporting officer advised what the normal for his area is? Is he advised at all?

A.—I have heard of cases where he has simply sent out his chaprasi to enquire what the crops are like. *How far this is true and how far it is typical,* is difficult for me to say.

Q—How does the village officer know what is the return that is taken as a result of crop-cutting experiments as the normal? Is he advised that the normal is so many maunds per acre or is he simply assumed to know the normal for his locality?

A.—I think he is assumed to know the normal for his locality, partly by inspection and partly on hearsay I am afraid I cannot enlighten you further on this point.

Dr Paranjpye *Q*—Does 9 As crop mean 9/16th of a bumper crop?

A.—It all depends on what you are taking as the normal

Q—Supposing the normal is 12 As and the crop is stated to be a 9 As crop.

A—It is expressed in relation to the normal crop in that case

Q—If it is 12 As in one place and 10 As in another place, is it 12/16 and 10/16 of a bumper crop?

A—It will be in relation to the normal crop in the place

Q—9 As in one place means 9/16 and in another 12/16 of a bumper crop?

A—Yes As a matter of fact, it varies from district to district We have different methods adopted in different parts of the country I quite confess I have not made a detailed study of agricultural crop-cutting experiments because I knew they were so hopelessly inaccurate.

The President *Q*—Have you any experience of the way in which prices are reported?

A—I can only make a general statement There again, I am told that the Collector or the Deputy Collector, whoever may happen to be reporting prices, send out a man to ascertain the current prices from the bazar There are no accurate methods of recording prices

Dr Paranjpye *Q*—How is it done in England?

A—There are special market reporters

Q—Don't they go to the bazar and find out the prices?

A—Yes, but the [illegible] take the case of a c[illegible] records to fall back [illegible] makes a report H[illegible] not the additional work of a Deputy Collector or a Collector as in this country I am told that Collectors in India regard the collection of statistics as merely an additional duty placed on them

The President *Q*—In Bombay, are there some officers of the type of market reporters?

A—I believe so, since the institution of the Labour Office I understand they have special reporters

Q—Have you any idea what the effect of their introduction has been?

A—I should say that their records are pretty accurate

Q—Have they shown that the previous records are inaccurate?

A—They have not been dealing with the past They have been dealing with current conditions

Q—That is as regards crops You have got the methods adopted in the book before you for instance in arriving at income from cattle, poultry, etc So far we have been dealing with the principal crops There are still fodder, and spices and condiments

A—The statistics are even less accurate here They are very deficient As regards tea, fairly accurate reports are obtained from the different tea estates. Where there is any big reporting agency or organisation with which one can get into touch, very accurate returns can be secured Coffee is also fairly accurate.

Q.—These I should call special crops—tea, coffee, jute, cotton.

A.—Cotton is inaccurate

Q—Even though it is special?

A—Cotton is very inaccurate

Q—I was dealing with the large bulk of crops that fall under crops which are not specially reported at all Most of them are comparatively valuable crops. For example, chillies That is a valuable crop but there are no records at all. It goes in with fodder.

A—Yes All these crops are important and yet they figure as minor crops in agricultural reports; nevertheless, they are most important crops, crops on which the people of the country largely depend for their personal livelihood

Q—Have you studied the industrial statistics at all?

A.—Yes. The mineral statistics are fairly accurate except in the case of very small mines The returns of the Geological Survey are very accurate

Q—As regards industries, mills?

A—The figures for cotton are quite good There are deficiencies in the case of jute The quantity of jute goods produced is not given Personally I cannot understand the reason for this.

Q—I suppose cotton statistics come from the cotton excise returns and there is no similar duty on jute.

A.—I do not see why the Bengal Chamber of Commerce do not compile detailed statistics of jute goods produced I am surprised that they do not. I had access to their reports but found no figures Particulars of the number of mills, spindles and so on are given and one can arrive at an estimate. Statistics of the consumption of jute in Bengal can also be obtained But when it comes to actual production of gunny bags, there are no official figures available, only estimates made by persons who are interested.

Q—What have you got in the case of sugar, paper and cement?

A.—There appears to be very little information I tabulated the available data in my memorandum to the Industrial Commission There is very little information about minor industries With regard to the handloom industry, I believe the Madras Publicity Board tried 4 or 5 years ago to arrive at the total production of the handloom industry in Madras

Dr Paranjpye Q—Have you seen Mr Bell's note? He says that more than a third of the production in India is from handlooms

A—Various estimates have been made I have not seen Mr Bell's note. For statistics of industries Government has to rely on voluntary returns made by different firms and one cannot say how far such returns are complete In many cases they are most incomplete.

Q—Coming to forest produce, are there any figures?

A.—There are fairly good returns for forest products. The Reports of the Forest Department give full information There are a number of provincial reports which also give valuable information. I think the Imperial Forest Department published a bulletin or handbook about 3 or 4 years ago which gave accurate statistics relating to forest production.

Q—About Fisheries?

A—There is very little information about Fisheries I believe in Madras they have fairly accurate records. With regard to other parts of India, I would be very chary to arrive at an estimate One of the pieces of research which I was keen on undertaking when I first came to India was an estimate of wealth and production, similar to that obtained by Dr. Bowley in England. As materials for such an estimate were insufficient, it would have been mere guess work on my part to utilise the few existing statistics. Material is available in England but not here Dr. Bowley's figures are very largely taken from the Census of Production

Q—How do you get at the national taxable capacity? Is there any process which has been arrived at and which will be applicable to India?

A—First, in Great Britain and the United States there are to a very large extent reliable official statistics of production and the amount of estimating is reduced to the minimum Here it would be largely a question of estimates right through from beginning to end For instance, take agricultural production In Great Britain there are skilled men, educated men, men who have taken degrees either in agriculture or in economics,

to report. Such men are sent out as market reporters and they submit proper returns to the Board of Agriculture These returns are very accurate, partly because educated men are employed and partly because they are engaged solely on crop and market reporting Besides, the information is supplied by an educated class of persons, namely, the farmers, who understand the purpose of these inquiries There is no comparison at all between the farmer who supplies information to a market reporter in England and the ryot in India who supplies information to the Collector or to the District Officer. There arises the whole difficulty As the bulk of your production is agricultural, estimates of agricultural wealth will have a tremendous effect in determining the final figures of total wealth

Q—How do you apply that to the case of Japan?

A.—I am not conversant with statistics of Japan and I could not say whether their statistics are accurate or not I do not know their method of reporting But the whole difficulty everywhere is that people accept published figures at their face value The result is that you have productions (here the witness produced the Statistical Abstract of British India) like these, very excellent no doubt in many ways, but what do the figures they contain mean? Even in such a simple matter as population, when we analyse the figures for successive censuses we find that they relate to different areas The census areas have gradually increased, and unless one takes the figures in relation to the different areas one will not be able to arrive at any accurate conclusions

Q—Were the last census figures accepted as accurate?

A—The gross figures were certainly accurate But Calcutta complained that there was some omission from the census in that city The complaint might be partly due to the fact that Bombay figures were higher than those of Calcutta There was a good deal of feeling in Calcutta, and they wanted to carry out a fresh census I think they eventually decided not to undertake one Really accurate statistics are those of sea-borne trade

Q—Have you considered the question of improving the official statistics?

A—Yes, I have and I submitted a note on that subject to the Industrial Commission It was published in the volume of Bombay evidence You may obtain some suggestions from the note.

Q—Have you any experience of the English census of production?

A—I have had no personal experience I think you must have legislation Mr Flux was in charge of the first Census of Production and he found the task extremely difficult because of the liability of duplication He had to engage a very skilled staff to carry out the work It took a very considerable time to complete I think you have in some ways greater facilities in India to carry out such a census In the case of large industrial establishments, it should probably not take so long as in England It all depends whether you want to conduct the inquiry on a large scale and include domestic industries. If you do so difficulties will arise A special staff for the inquiry into industrial production would be required One would have to raise a special staff to carry out the inquiry with the co operation of existing administrative staffs The statistics of industrial production now collected are quite fallacious Any attempt to include cottage industries and handloom weaving would be a very difficult task. It would not of course be impracticable, but how far one would get very accurate returns is quite another matter.

Q—Now a Wages Census, do you think that is a practicable proposition in this country?

A—Yes, so far as the chief industrial establishments are concerned, that could be carried out fairly easily

Q—What about the majority of the population?

A—There one comes to the daily agricultural labourers Information regarding their wages is more difficult to obtain for the same reasons as information relating to domestic industries would be difficult to acquire. Legislation and a special recording staff would also be needed.

Q—Are there any examples of budget sampling?

A.—Some statistics have been published by Patna College but I do not think they are accurate They have been collected by students who have just started studies in economics and I do not think that one can rely very much on the figures. But in the Bombay Census Report there are certain figures which are fairly useful.

Q—In your opinion, is it practicable to get anything like a picture of the economic condition of the country from a process of sampling like that?

A—One would have to take a very large number of samples, and the procedure I would suggest for that purpose would be for the investigation to be undertaken by provinces and districts A random sample of villages should be taken Names of villages should be arranged in alphabetical order and say, every 50th or 100th village should be marked for investigation according to the number one wishes to include in the sample By following this procedure, the sample would be less open to criticism, because one would not be selecting distinct villages The villages are chosen by chance For instance, there are in India five hundred thousand villages Supposing every 100th village is marked for investigation one would require to conduct 5,000 inquiries, which of course is a very big task, but one would not be open to the charge of bias which could otherwise be made if one took selected villages.

Q—I suppose as a statistician you have some sort of idea what number of samples will be necessary to obtain an accurate result?

A—What we took in England was one in 20, but one could not do that here, because the task would be far too great If one takes one in a thousand,

received by all parties—Conservatives, Liberals, Socialists and Labour—with approval, because they recognised that we approached the matter in a scientific manner Our methods were described in detail and no one could charge us with bias The method of random sampling is generally accepted as most valuable, and Government Departments in England are employing it Mr Hilton at the Ministry of Labour is using it and recently he read a paper before the Royal Statistical Society on the application of the method to statistics of unemployment

Q—What would be the cost of an intensive inquiry in a village, say, with a population of 500?

A—It would depend very largely on what existing agencies could be utilised I consider that the sort of staff employed by Mr Jack in carrying out his inquiry in Faridpur would be ample But I am afraid one could not draw any broad conclusions from Mr Jack's inquiry, because provinces in India differ from one another as much as do countries in Europe Besides, conditions vary so tremendously that it is doubtful if any useful conclusion can be arrived at. After all, in the case of India one is dealing with a continent and not with a country I think, however, that by the process of sampling as suggested by me one could draw very valuable conclusions for India as a whole It would also be certainly better to have tracts possessing similar economic characteristics, climate and soils. One would have to modify the general investigation according to the characteristics of different areas, but it is not possible for me at a moment's notice to place before you a cut and dried scheme

Dr. Hyder *Q*—Do you place any reliance on the prices reported in papers like 'Capital'?

A—So far as those prices relate to Bombay and Calcutta they are valuable. The figures published are reports from the chief areas where the commodities are produced These reports are made by selected firms through upcountry agents. I presume that is how they are compiled For instance, like shellac The information is supplied by Messrs Moran & Co, and for tea—Cresswells There are no

particulars as to who supplies information in the case of the other reports, e.g., oils. Doubtless there is some large dealer in oils in Calcutta who obtains the report from his up-country agents

Q—If we want to estimate the wealth, one of the items that will escape notice is hides and skins. Here is a quotation (Reads from a copy of "Capital"). We have all particulars combined for one week and the price Don't you think that we could form some idea of these smaller bye-products by utilising these market rate records?

A—I think one could to a considerable extent The Committee also could probably obtain the co-operation of these firms in any census of production which may be contemplated. That is what was done in England When I was at the Board of Agriculture the particular section with which I was concerned was that of meat and provisions I placed myself in touch with the British and Argentine Meat Company and other meat importers and obtained their assistance in compiling statistics. Similarly the Committee could seek the assistance of the chief importers and exporters of these smaller bye products. But I think the Committee would have to investigate even further

The President *Q*—So far as they are exported, surely you can get very accurate statistics from export documents

A.—Undoubtedly What Dr. Hyder is referring to is that these agencies in the case of hides and skins could give us accurate figures of production They can up to a certain point

Q—Could they go any further than the Customs Officials and improve the export figures?

A.—Many of these big firms—(*e g*, in the case of cotton, Volkarts) have most valuable figures, more valuable than you can get from any Government record, for their trade purposes Whether they would be prepared to make those figures common property is another matter

Sir Percy Thompson *Q*—They really want all that information They want to know what is going to be the price. They want all those particulars for an intelligent anticipation of what is going to be the price

A—That is so

The President *Q*—No two firms do the same thing?

A—No These firms have their own recording agencies I think it would be a good idea—I know that it is very difficult to get information from these firms—it would be a good idea if the Committee could get a representative from any of these big firms and ascertain what their recording system is There is no harm in trying Whether the Committee will be able to obtain the information is another matter They won't thank you if you offered to take over their return and make it official

Dr Hyder *Q*—Then, as regards the question of an economic inquiry, I quite agree with you that the sampling method would give us results which would be better than the results at present given As regards the question of agency, don't you think that the officials who form the district staff could help in any such inquiry if they had a properly recruited staff?

A—Yes, if they could be definitely set aside for the work and if it was made clear to them that their duty was to collect statistics only and not that it was, their duty to collect statistics *in addition* to other work What most people who have to compile forms feel is this They get forms "shot" at them Well, just as in the case of their ordinary work, they will get through it somehow. They will supply one with figures But how far such figures would be of any value is another matter They are not going to worry themselves over additional work There lies the difficulty.

Q—Would you be satisfied with sampling one or two villages under the charge of a Deputy Collector assisted by the district staff? If a Deputy Collector were told "You have got to survey out this village; here is your revenue agency, we will put this agency under you", would you be satisfied with the results as reflecting the condition of the country as a whole? Survey in one or two villages taken at random according to your method.

A —One cannot generalise. One has to get down to smaller units than a district I certainly think that before any general inquiry is undertaken (should it be decided that a general inquiry be instituted) a test inquiry should be made, on a small scale, because, if any difficulties should arise, one would realise those difficulties before one proceeded very far, otherwise much time and money would be spent before one could stop the investigation A test inquiry is therefore very essential

Sir Percy Thompson *Q* —What do you mean by that Taking one in how many?

A —When I first made the inquiry—I am sorry to refer to my personal inquiries—in the inquiry that I carried out in Bombay, I sent my men to collect information from a few houses in different parts of the area to be investigated. I first obtained information from 20 to 30 dwellings My staff consisted of about a dozen men, each man calling at two houses They then came to me with their returns and discussed their difficulties Previously I had instructed them as to the manner in which they were to make their entries We realised that it was necessary to modify our methods and certain of our questions because they were likely to be misunderstood We remodelled the inquiry and then went ahead with the main investigation Similarly in any investigation Government may carry out, I suggest that in order to test the administration machinery in each district, one should carry out the inquiry in one village in each district and then report Supposing a survey of 100 villages was to be made; after collecting data for one or two, a report should be made just to see how the inquiry is working Otherwise if one allows the enumerators to proceed without checking, mistakes would probably occur The greatest defect of the Census of Production in England was the failure to carry out a preliminary inquiry.

Q —In other words, test inquiry is sampling of the second degree

A —Yes

Q —Is there any other way of finding out the average income save by a census of production?

A —One can arrive at estimates by methods that have been followed by statisticians and economists in other countries But they are only estimates

Q —I am talking of a country like India, where you have practically no income tax returns because it is mainly agricultural and you have got no death duty returns. I was wondering whether you might employ even those returns that exist in India

A —I am very doubtful whether one would obtain anything of value

Q —You think you would have to undertake a census?

A —I think one would have to go pretty far if it is going to be of any value I do not say it is going to be an easy task It is going to be extremely difficult. People who talk so glibly about carrying out these inquiries and ascertaining the average income do not realise the difficulties that arise

Dr Paranjpye *Q* —Will the average income, when found out, be of any use in our enquiry?

A —If it is going to be of any value, it must be the precursor of periodical censuses of a similar type

The Maharajadhiraja Bahadur of Burdwan. *Q* —Would the result be commensurate with the cost?

A —I think that is a matter for our legislators to decide

I think there is a considerable amount of advantage in knowing the average income Economic loss arises because in India accurate information is wanting. I think accurate information is very necessary and personally I consider it should be obtained—I would not be a statistician if I didn't.

Sir Percy Thompson *Q* —Would the figure, when ascertained, tell you more than this, that you can compare the wealth of the country at that time

with its wealth at previous times when you took a census and will enable you to compare the wealth of one country with that of another?

A.—As far as one can compare the wealth of two countries. Unfortunately such figures bear no relation to one another They simply state that the wealth per head of such a country is so-and-so There is a great deal more behind the statement There is the standard of living of the two countries and prices prevailing There are so many factors that one has to take into consideration Although it would satisfy most people, say, 90 per cent of the population; a very small group of scientists would not be willing to accept such a statement at its face value They would want to go further They would want to know the standard of living in the different countries

Q.—Supposing you can get that Supposing you can get at a true measure of the wealth of different countries That is very interesting, but does it carry us very much further?

A.—Nothing beyond that

Q.—You cannot base any conclusions as to taxation on that?

A.—The material one could collect should be invaluable for the purposes of taxation.

Q.—Would you not want to know the distribution of wealth in regard to taxation?

A.—One would ascertain a great deal of that in the course of the inquiries One would find the bulk of the information so far as taxation of the ryots is concerned but there remains a very large and important class which at present escapes a great deal of taxation—the commercial and money-lending classes One should have information about them They possess a considerable amount of wealth

The President *Q.*—We now come on to the second head of our inquiry, and that is, how to divide the population into classes with a view to the taxes which would affect them You distinguish the agricultural class and the commercial class and I take it there is a very poor class which is neither agricultural nor commercial

A.—Yes.

Q.—And there is a professional class, and a class of landlords

A.—Yes The commercial class can be divided into several grades There are fairly distinct types, with the exception of those who fall in more than one class For example there are those who are commercial as well as agricultural. By this I mean landlords with business interests

Q.—For the purposes of our inquiry, apart from any question of an economic inquiry, you could fairly well say that a certain tax hits a certain class and a certain tax does not?

A.—Yes

Q.—Are you prepared to give us an idea offhand? What I have in mind is the salt and the cotton duty

A.—Salt does certainly hit the bulk of the people of the country, the ryots

Q.—Cotton duty? How low down does the use of mill-made cloth go? Does the ryot use mill made cloth?

A.—In my opinion, the ryot has hitherto used it to a considerable extent. I should not like to say off-hand what proportion He is certainly for the last few years using it less than he did before

Q.—Kerosene oil, does that affect the bulk of the population?

A.—I am afraid I can not say off hand

Q.—You want an intensive enquiry?

A.—Yes.

Q—Income-tax and land revenue you can get pretty clearly.

A—Yes.

Q—Customs is being divided up And Excise Can you define the drinking classes?

A—Drink affects the mill population in Bombay to a considerable extent I think Dr Paranjpye will agree with me There is considerable drinking in Bombay, to a less extent in Cawnpore, and much less again among the agricultural classes I would not apply that remark to the Jats of the Punjab I am speaking of the United Provinces men

Q—I come to the taxes To what extent is there an element of taxation in revenue from Railways, Tramways, Posts and Telegraphs, and such like services? Would you reckon the profits from Railways in estimating the incidence of taxation?

A—Yes, I think I should

Dr Paranjpye *Q*—Profits over and above the regular interest on capital?

A—Surplus profits.

Sir Percy Thompson *Q*—You would not give them a fair share of commercial profit?

A—Undoubtedly They must be allowed a fair commercial profit

Q—A monopoly profit?

A—Yes.

The President *Q*—If there were a monopoly profit?

A—Yes

Q—The Posts and Telegraphs That is a question on which there is enormous difference of opinion between the leading economists in England

A—There again, I think, over and above a fair return Of course, the point of view of the Posts and Telegraphs is that these departments have hitherto been cramped because they have not had the finances to carry on and there will be the question of determining what should be regarded as the normal amount of expenditure This difficulty should be cleared when we get commercial accounts

The profit on coinage should, in my opinion, go to the Central revenues I do not regard such a profit as a tax.

Q—How do you regard the supply of water for irrigation? Should the charge be the bare cost of supplying it or should a commercial profit be charged or what the traffic will bear?

A—I think, in India, it is very necessary to charge what the traffic will bear I do not think I would regard any part of it as a tax.

Q.—Would you regard certain taxes as payment for services rendered, *e.g.*, a tax levied under the Indian Ports Act in respect of the safety of shipping or dues levied under the Port Trust Act to provide convenience for passengers and goods?

A—Yes

Q—How would you regard taxes imposed for the benefit of a particular locality like the municipal tax? Would you reckon them as part of the burden on the population as a whole?

A—No One should have a separate incidence for each locality. I would distinguish between different local taxes, *e g*, between a cess levied for a particular service like the supply of water or lights and the general tax, because in some areas (for example in industrial centres like Cawnpore, where there are mills) there is a special demand for water for industrial purposes and I consider the mills should pay a special tax

Q What I had in mind really was rather a rate on the annual value of property. You have a supplementary rate for water, another supplementary rate for drainage and those are earmarked funds The general rate would be determined by the general incidence on the locality as a whole and special rates would depend on those special services referred to

A.—Yes

To Dr Paranjpye.—It is possible that one municipality may lump all these services under one general rate and another municipality may have special rates for special services That is a matter for separate municipalities. There cannot be any basis of comparison between the different municipalities You could do it on the grounds of expenditure

Q.—I am familiar with the divided views of economists on the subject of certain indirect taxes being voluntary Are there any taxes which you would exclude in estimating the burden of taxation? As, for instance, the tax on luxuries the tax on liquor

A.—After all, a man could, if he wishes, abstain from paying these taxes if he curbs his own desires I should undoubtedly exclude them in determining the burden of the incidence of taxation.

Sir Percy Thompson *Q*.—Would you include income-tax in that?

A.—No

Q.—He may earn any income he likes.

A.—That is an entirely different matter In the one case the man is earning an income as a means of livelihood, in the other case, he is squandering away whatever income he may have earned.

Q.—I will give you an instance In 1918 all the Welsh colliers refused to work overtime because they were charged income-tax on their income They escaped the tax

A.—I think it is now generally recognised that the main object of instituting the tax is to serve as a check upon excessive consumption

Q.—I am only saying that according to you income tax does not seem to be very much different to excise duty on spirits If you say that you could avoid a tax on spirits—if that really is your test—I say that you can equally well avoid the tax on income by not earning it

A.—In one case, it is a tax practically on production—the income tax In the other case, it is a tax on consumption

Q.—In the one case you need not consume and in the other case you need not earn

A.—I don't agree there In the one case it is not as though one is engaged in nefarious production. It is according to the standards of society If one is engaged in stealing, that would be a very low moral standard of production The thief is not exactly taxed but he runs the risk of punishment and fines which would amount to tax It is rather difficult to explain I do not think you are comparing like with like in the two cases

Q.—I do not say that income-tax is an avoidable tax, but I gave an instance where it actually happened They refused to work because they were liable to income tax

Dr Hyder *Q*.—Do you think that inflation can be used as a method of taxation?

A.—The question opens up a very big and controversial issue

Q.—I want to be clear on that point, whether the profits on coins are to be considered as taxation or not?

A.—I adhere to my opinion, that they are not taxes. I do not share the view held by some people that the rupee is worth only ten annas I know it is current among certain people, but I do not share that opinion.

12th December 1924.

Delhi.

PRESENT :

Sir CHARLES TODHUNTER, K C S I , I C S , President

Sir BIJAY CHAND MAHTAB, G C I E , K C S I I O M , Maharajadhiraja Bahadur of Burdwan

Sir PERCY THOMPSON, K B E , C B

Dr R P PARANJPYE

Dr L K HYDER, M L A

Dr. RADHAKAMAL MUKHERJEE, M.A., Ph.D., Professor and Head of the Department of Economics and Sociology, University of Lucknow, was examined.

Written memorandum of Dr. Mukherjee.

THE TAXATION OF AGRICULTURAL INCOME IN INDIA.

The vast population of India is essentially agricultural and rural, the cities and towns of [illegible] the population Agriculture proper [illegible] es the cultivators, the villages contai[illegible] who are ordinarily supported fron[illegible] derable proportion of the large num[illegible] unclassifiable occupations are labourers clearly connected with the occupation of the land It has been estimated that nine-tenths of the rural population of India live, directly or indirectly, on the produce of the soil. In a country where agriculture is the predominant occupation, the field produce naturally furnishes the mainstay of taxation yielding approximately 40 per cent of the revenue The repeated occurrence of famines and the rise of prices in recent years have, however, [illegible] or absence of taxable surplus [illegible] and revenue is assessed upon [illegible] tion, price-level and general [illegible] ct whether the cultivator has [illegible] tracts the economic distress has also shown the inequity of increasing the burden of rent for the cultivators and exempting the zamindars from new or additional burdens, while the increasing chain of rent receivers in other parts who eat up the profits of agriculture have so far resisted the encroachment of the tax-collector upon their preserve of agricultural income Thus whether the Government or the landlord encroaches upon the standard wages of cultivation by exacting an undue share of the produce the result of the transgression is the same.

On account of the widespread adoption of the principles of sub-division and sub-infeudation of rights in land, there has developed a long chain of rent-receivers and rent payers who are lowering both the legal status and economic position of the actual tillers of the land. There cannot be any doubt that the practice of sub-infeudation of the right to receive rent which has received impetus since the settlements continued through several grades [illegible] top imports into the countryside a swarm of [illegible] on the margin of profits of farming the reve[illegible] and the actual cultivators there is thus a l[illegible]

the cultivators out of the position of land-holders. Sometimes they take shelter under the security of the legally recognised peasant. Sometimes, again, they themselves obtain legal recognition. On one side, in many parts of India the substantial cultivator is bought out by the group of capitalistic middlemen On the other, the cultivator gives up his due share of labour in the fields and depends more and more on hired labour or on the share system Even in the Punjab there had developed a class of occupancy tenants and inferior owners who exercise practically all the rights of ownership except that they pay certain dues to superior landlords Thus out of the total cultivated area of 29 million acres in 1918-19, nearly 15 million acres were cultivated by tenants in the Punjab In Bengal the creation of a class of patnidars, dar-patnidars and other inferior owners has been a serious evil now sought to be remedied by an amendment of the Bengal Tenancy Act All this has brought about a marked alteration in the distribution of agricultural income.

This necessitates that we should seek the taxable surplus from the long array of intermediaries dependent on the land rather than from the small holders whose economic position has deteriorated very much in recent years It is also necessary [illegible] graduated scale as in the [illegible] ion comm[illegible] led tract[illegible] ed Indeed, where there is a large transfer of agricultural holdings and the non-agriculturist classes play a large part in land speculation and farming of land revenue these gains form a surplus peculiarly fitted for taxation

A way towards a more equitable adjustment will thus lie in (*a*) assessing the income derived from land from all classes of rent-payers and rent-receivers who do not directly work on the soil, (*b*) fixing the revenue on the agricultural profits of a representative economic holding, (*c*) exempting the uneconomic holding from any land tax

The size of the average economic holding would vary in different provinces *and it is necessary to institute regional enquiries with a view to arrive at the* average economic cultivation unit. This marginal unit representing the exemption level would be the barrier against the unwise use of taxation In the ryotwari lands the Government rent is calculated after deducting cost of production from the gross produce such as cost of carriage to market and grain dealers' and other middlemen's profits, loss on bad soil which in dry, *i e*, unirrigated lands amounts to as much as 25 per cent, and the expenses of cultivation. After these deductions are made the remainder is the net cash produce Of this the lesser half goes as Government revenue The danger in this system of rent assessment has been to underestimate the total cost of production, and to ignore the cultivator's profits, while over-estimating the gross produce and the benefits derived from land improvements and irrigation projects Such a danger can only be eff[illegible] the economic holding which would fix the li[illegible] crop, climate and soil, as well as marketing [illegible] o account in the definition of an economic [illegible] ch credit facilities as have been available for small holders in Europe and the very limited development of co operative methods of purchasing supplies and marketing produce must also be taken into account in India in determining the size of the economic holding. Again, the intensity of cultivation must be taken into account In India the amount of family labour expended on the land is very great and the smaller the holding the greater the amount of family labour per acre But if the holding decreases beyond an average size as a result of sub-division, a large part of family labour remains idle or is wasted We have no evidence to show the direct effect of further sub-division of the land on agricultural efficiency, nor is it possible to estimate for different crops the distribution of holdings by size In [illegible]

10 bighas (3⅓ acres) of land Ploughs are not reckoned according to the number of those implements of husbandry that a man might possess, but according to the number of plough cattle that he has, four oxen being the full complement necessary for the management of one plough; but that number has now come down to three and even to two in great many instances, the consequence being that the cattle is overworked. 10 bighas (3⅓ acres) of land are the utmost that the Bengal peasant can manage with one plough, and this is also the size of an economical holding in Bengal Presidency, though the average size is smaller. In the *bills* and marshy tracts *boro* is grown and in the forest—reclaimed *aman* lands, *dhan* is planted without the assistance of the plough. Thus the proportion of food-producing land to each plough shows here an excess over 10 bighas, and hence the average holding increases in size On the other hand, the economic holding of a peasant might be smaller than 10 bighas if other crops are grown besides rice An economical distribution of crops and plots in a Bengal village has been as follows, the total size of the holdings is 7 bighas which is distributed in this manner, *aman* rice, 2½ bighas, *aus* rice, 1 bigha, gourd, kalai and mustard, 2 bighas, mugh, ½ bigha and sugarcane, 1 bigha The size of each cultivator's plot at one spot must vary according to the character of the crop raised. In the case of *aus* rice, the plots are usually of 10 or 15 cottahs to 1 and 1½ bighas in dimension, a plot of 2 bighas in area is rather scarce The low *aman* fields are 2½ to 4 bighas in area

Let us now estimate the agricultural expenses and the average price of an economic holding whose size we are reckoning as 10 bighas We have strictly followed the verbal statements of the peasants in putting down the following items :—

The Expenses of Cultivation.

	Rs	AS.
Rent of 10 bighas of land at Rs 1/6 per bigha	13	12
Ploughing and sowing by extra hands	2	0
Seed grain	12	8
Weeding expenses	12	0
Harvesting expenses ..	12	8
Total	52	12

We do not include the cost of maintaining the oxen, which usually feed on straw, *kuro* and *mar* supplied by the household A peasant who has no oxen but hires them has to pay 4 annas per diem.

The peasants estimate the average produce of a bigha in normal years as 10 maunds. So the total yield will be 100 maunds Out of these 36 maunds will be required for domestic consumption and 24 maunds will be kept as reserve stock. The saleable surplus is 40 maunds which would fetch at the rate of Rs. 1-4-0 per maund as harvest price, Rs 50 Thus the expenses of cultivation are nearly or just covered.

Let us now estimate the agricultural capital invested.—

	Rs	as	p
1 A pair of oxen	40	0	0
2 The wooden plough	40	0	0
3. The *ish* or beam	0	8	0
4. Iron *fal* or ploughshare	1	0	0
5 The handle (ninjra)	0	2	0
6. The yoal or yoke	1	0	0
7. Ropes	0	3	0
8. Bidha or harrow	6	0	0
9. Ladder	0	8	0
10 Scythe	0	12	0
11 Weeding knife	0	1	6
12. Baskets	0	4	0
13 Earthen pans for feeding cattle	0	6	6
Total	52	0	0

That is to say, the sum laid out by a peasant in fitting out a plough for cultivation is nearly the same as the expenses of cultivation in a year. Very

often this capital is borrowed at high rates of interest. The size of the holding is often less than 10 bighas (3⅓ acres) In the United Provinces the average cultivation unit has been found to be less than 2 acres Thus the smaller yield, the high rate of interest, the difficulty in marketing the produce, improvidence and bad seasons leave the peasant almost nothing to fall back upon. In many parts of India, 6 to 10 bighas (nearly 2 to 3⅓ acres) would represent the average economic holding, which *however established* has virtually no ability to bear taxation. A tax on an uneconomic holding would entail a loss of physical efficiency of the cultivator and his family or lead to the transfer of the holding into the hands of money-lending or middle classes who have other sources of income. In 1917 France introduced an income-tax on agricultural profits as distinguished from land proprietorship at the rate of 3¾ per cent. In England the assessment of farmer's profits were at one-third of the annual value before the war and the great majority of the farmers were virtually exempt from all payment. During the war the basis of assessment of farmer's profits was raised to the full annual value. In India the cultivator and his workers and dependents are maintained directly on the produce of the fields and the real income is difficult to ascertain and value Book-keeping methods are also unknown amongst the farmers. But these difficulties are not insuperable but must be faced in order that we can establish the distinction between sorts and sizes of agricultural income which rightly rank as costs and those which are to be accounted surplus, which latter and not the former should bear the tax. For obviously five men can not pay a direct tax in money amounting to 40 per cent. of the gross produce and the interest of old debts at 25 per cent upon three acres of overcropped soil without danger in a bad year of catastrophe

Agricultural indebtedness lies heavily on the mass of the Indian peasantry and evictions and forced sales take place to a greater extent than is consistent with sound finance Regarding the security of the peasants against the undue encroachment of tax or rent as the object to be achieved the solution can be found only through improvement of methods of calculating agricultural surplus. In the Punjab the system of assessing the value of agricultural land every year or even twice a year is adopted. Sir James Wilson remarked "' Whether the advantages outweigh the disadvantages or not is a matter that may safely be left to the judgment of the peasants who have tried both plans, and the success of the system may be judged from the fact that, of the thousands of villages whose land revenue is now assessed harvest by harvest in this manner, hardly one would willingly give it up, and revert to that of a fixed average assessment The system has also the indirect advantage of bringing the superior revenue officials into close contact with the villagers, and above all, it makes the Government share directly and immediately with each individual cultivator in his losses as well as in his profits. and so avoids the odium of a seemingly callous realisation of a fixed demand from poor peasants in years when their crops have failed More than a sixth of the total land revenue demand of the province is now collected under this system of fluctuating assessment, and it is becoming common for villagers to ask to have its benefits extended to them "

The method of computing agricultural profits and prices should be adapted to the different conditions of tenure and settlement, soil and crops, so that there is no encroachment on the standard wages of agriculture in an economic cultivation unit The curb of an estimate of normal or standard wages of cultivation ought to be fastened on the uncontrolled economic forces now manifest in the lowering of the status of the small holder, his indebtedness and his compulsory expropriation

Investigations into the yield of agricultural produce show that in normal years there is food shortage in the country and thus the present land tax encroaches upon the physical subsistence which is necessary to maintain the cultivator and his family The income from the land which is below the size of the economic cultivation unit is a necessary element of income with no power to bear a tax The question of the surplus of food production over consumption has thus an intimate bearing upon the taxable surplus of the agricultural classes as a whole According to the latest Government estimate we require a minimum of one-fifth ton of food grain per head per annum including wastage and seed. For normal current consumption the Indian population of 318 millions would require 63 6 million tons of food grains and other food. The cattlefood would require a normal addition of 14 million tons and seed 11 million tons while wastage would be 6·3 million tons. Thus making these additions India requires for keeping her population and live-stock in normal

health and strength an outturn of approximately 95 million tons India's normal total outturn of food grains is approximately 85 million tons. We may conclude that during the last decade Indian food production on an average fell below her normal requirements by 10 million tons Although she has no food surplus she exports 4 to 5 million tons every year leading to a deficiency of 045 ton in the necessary minimum of food per head per annum. This implies that there is an inequitable distribution of the national agricultural dividend. Out of the total cropped area of approximately 250 million acres, food crops comprise 200 million acres 16 per cent of the total cropped area is devoted to commercial crops, but the agricultural income derived from these does not relieve food shortage This can be explained as due to the increase of the class of intermediaries both in agriculture as well as in industry and the professions, who therefore ought to relieve the burden of taxation of those first to suffer from inclement agricultural conditions.

The modes of land assessment were also aggravated instead of mitigating the effects of restless encroachment. The Mughal and the Marhatta rulers obtained from the land a net one-half of the produce but when there was scarcity, the assessment was reduced A very interesting instance of such reduction is afforded by a *firman* of the Emperor Aurangzeb which is as follows .—

"If Kharaj-i-muazzaf has been fixed on a land and a calamity befalls some crop of the land by which it is not totally destroyed, then you ought to enquire into the case, and deduct from the revenue to the extent of the enquiry done; and from the portion that remains safe, take so much of the produce (mahsul) that the ryot may have a net one-half, *e g*, ten maunds are usually produced in a field, on account of the calamity six maunds only are left (safe), the net half of this is five maunds; therefore, you should take one maund only (as revenue), so that the net half, *viz*, five maunds may be left to the ryot."

During the palmy days of Moghul administration the revenue collectors were subjected to a variety of checks so that the chances of rack-renting and oppression were very small "If (God forbid) any calamity (2,700) from earth or sky overtakes a mahal strongly urge the amins and amils to watch the standing crops with great care and fidelity, and after inquiring into the sown fields, they should carefully ascertain (the loss) according to the comparative state of the present and past produce (hast-o-bud) You should never admit as valid any sarbasta calamity, the discrimination (tafriq) of which depends solely on the reports of the chaudhris, qanungoes, muqaddams, and patwaris So that all the ryots may attain to their rights and may be saved from misfortune and loss and usurpers may not usurp (other's rights) Strongly urge the amins," "amils", chaudhris, qanungoes and mutsaddis, to abolish balia (or halia) exactions (akhrajat) in excess of revenue and forbidden abwabs (cesses), which impair the welfare of the ryots Take securities from them that they should never exact balia or collect the abwabs prohibited and abolished by His Majesty And you yourself should constantly get information and if you find any one doing so and not heeding your prohibition and threat, report the fact to the Emperor, that he may be dismissed from service and another appointed in his place"

In the light of the foregoing, the present system might be made more responsive to the local fluctuations in agricultural prosperity In Madras, Bombay and the United Provinces in particular, the enhancement of assessments has gone by leaps and bounds Thus the whole system of land tenure and taxation is called in question by the repeated famines, even though they have been partially stripped of their old horrors The following figures would show the large and continuous increase of the land revenue :—

	Land Revenue in crores of rupees.	Cropped area Million acres.
1890-91	24 01	194·41
1893-94	25·58	197 33
1898-99	27 46	196 48
1901-02	27·41	226·00
1907-08	26 67	221 63
1908-09	28 29	218·00
1914-15	30·70	227 68
1918-19	33 00	201·38

·Only those years have been selected which have followed a famine

If we now consider the assessment of the three provinces mentioned above the increase would be found to be even greater.

Madras.

Year.	Land Revenue	Index No. of agricultural income per head.	Cropped area.
	Lakhs.		Million acres.
1886-87	460 5	100*	23·01
1902-03	582 5	132	24 50
1913-14	574 8	160†	34·18

(excluding irrigation receipts).

United Provinces

Year	Land Revenue	Index No. of agricultural income per head.	Cropped Area.
	Lakhs.		Million acres
1886-87	580 7	100*	35 97
1902-03	636	106	34 61
1913-14	521	130†	38·27

(excluding irrigation receipts)

Bombay.

Year	Land Revenue	Index No. of agricultural income per head	Cropped area
	Lakhs		Million acres
1886-87	270	100*	24 2
1894-95	289	89	24 5
1900-01	298	105	21
1913-14	51	123†	30·8

Such an enormous increase in the revenue cannot but diminish the capacity of the peasant to bear the strain of bad years

*K. L. Dutta's figures for 1890-94.
†K. L Dutta's figures for 1905-09.

The increase of incidence of land revenue per head of population is as follows :—

	1900-01.		1916-17.
	Rs. A. P.		Rs. A. P.
Bengal	0 8 11		0 10 6*
Bihar and Orissa	0 7 3	(For 1911-12)	0 7 7
Madras	0 9 5		1 10 1†
Bombay	1 0 4		2 2 9‡
Agra	1 5 6	(For 1906-1907)	1 6 10
Oudh	1 5 10	„	1 6 8

Much of the benefits of the Permanent Settlement as regards fixity of assessment have been minimised as we have noticed by the growth in recent years of the class of rent receivers and rent-payers on account of which the rates of rent of the raiyat paid to the landlords have increased a great deal This increment does not reach the public exchequer but fills the pockets of absentee landlords and intermediaries The effect is none the less different as regards [illegible] power of the peasantry Thus economic- [illegible] anently settled tracts is growing as [illegible] of the hopes of the late Mr R C [illegible] r of scarcity are visible here though perhaps to a less extent than in the rest of India As to the exact estimate of the intensity of famines and scarcity, it is difficult to speak with certainty but the investigations of Mann and Kanitkar have yielded result which serves to explain the distress and hardship, suffered during a famine in many quarters

The increase of land revenue in the village :—

Year.	Land Revenue.	Assessed area
Pre-British—	Rs.	Acres.
1698	301	1,963
1721	526	2,000
1727	620	2,000
1750	1,173	2,000
1770	1 632	2,008
1785	552	1,951
1790	66	1,951
British -		
1803	1,009	1,981
1808	818	1,951
1817	792	1,951
1823	2,121	2,089
1844-74	1,161	2,089
1874-1904	1,467	2,271
1905	1 405	2,-71
1915	1,581	..

Out of 147 families investigated only 22, or just under 15 per cent can pay their way in the standard they have themselves fixed The others are living below that standard, or else are deriving income from outside, or they are increasing their debts It is not the debt which maintains, in an average year, the bulk of the people in this group in an insolvent condition If debt disappeared, still 80 per cent. of the village would be insolvent, in an average year The whole maintenance of the position depends on the hope of good seasons, which have come about twice in the last ten years Then interest can be paid, perhaps debts redeemed, and the position improved It is difficult indeed to see where the future of such a village lies. If it had a series of good

* For 1917-18. † For 1918-19. ‡ For 1915-16.

years, it would flourish, and though it could hardly pay its way and pay off debt it would gradually, we think, recover a sound economic position, though the people would for a good many years have to live below their own standard, or be subsidised by their representatives living in the industrial centres But what are the chances of a good year? Only two years out of the last ten years can be considered as such If we take the fallow area as the least indication of character of a season, and if we consider 1915 16 and 1916-17 as being good years, though the anna valuation was only 10 annas, than from 1895 96 to 1919 20 we may classify the seasons as follows —

1 Materially above 1915-16 and 1916-17 or exceptionally good seasons . .	2
2. Good seasons	7
3 Average or slightly above average seasons	12
4 Seasons considerably below average including famine seasons	3

What one of these last disastrous years means for the village may be indicated by what has happened in certain directions in 1918-19 a genuine famine year. It has meant—

(1) The borrowing of Rs 6,000 by tagai loans, of which Rs 3,000 was for well-sinking and repairing and Rs. 3,000 for purchase of cattle

(2) The mortgage of 335 acres of land by 26 people for Rs 7,021 *which must be added to the village debts in 1917 recorded above*

(3) The sale of 65½ acres of land by five people for Rs 2 137

(4) The loss of 59 7 per cent of the bullocks, 80 5 per cent of the cows and 71 per cent of the buffaloes

(5) 300 people leaving the village for work during the famine, 200 going to a local famine camp, the rest going to industrial centres

Counting only the increase in debt, the famine has meant an increase of indebtedness of at least Rs 13,021, or by over 44 per cent in the one year Some of this may be paid off at an early date, but much will probably be permanent either in its present or in some modified form

Such evidence of rural deterioration points to the need of a new and forward policy of taxation The class which maintains the race must not be selected to bear a burden they are least able to do, while the classes which enjoy a taxable, unearned income receive a lighter treatment

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Dr Mukherjee gave oral evidence as follows:—

I am the Professor of Economics at Lucknow Before that I was in Calcutta I was also appointed in Bombay for the University School of Economics

The President Q—What I would like to ask you first of all is as regards the adequacy of the material already available Have you made any study of Indian statistics?

A—We have to depend upon many of the associations, economic and sociological in different parts of India and in different universities to obtain information on many of the aspects of the taxable capacity of the people I think the statistics that are already available would not be adequate enough to enable us to estimate rightly such things as the incidence of taxation and the distribution of income amongst the different classes, and in the absence of information in these fields, we have to build upon hypotheses of income which perhaps may not be justified by the actual facts in the villages I refer in particular to the official statistics There are very few associations collecting information regarding the average profits of the cultivators in different parts of India or again family budgets with reference to different classes of the population

Q—May we take the official statistics first? Would you give us your impressions regarding them? We will begin with the agricultural statistics

A.—I think the Report on Prices produced by Mr. K. L. Datta contains very reliable and useful information, but unfortunately, that inquiry has not been made up-to-date. He toured throughout India and visited many people and obtained information on the spot

Q—For the moment I was contemplating the use of statistics for the estimate of the total production. For instance, how would you proceed to get an estimate of the total agricultural production of the country?

A.—I am afraid that will almost be an impossible task under the organizations available at present, but I think for a Committee like this it would be more relevant and perhaps more significant to discuss not the total income, but rather the distribution of that income amongst the different classes I also think that if it would be possible to collect family budgets from the different classes and also information relating to the distribution of the profits of agriculture, it would be more relevant to our inquiry. On the other hand, if we spent our time in an inquiry like the present we would not be on sure ground For instance, I think you have seen Mr Shirras' new book, 'The Science of Public Finance' The information contained in it is full of hypotheses and tentative guesses, and I don't think such information will help us very much I should think the estimates arrived at by Messrs Shah and Khambata are also based more or less on guess work I therefore think it would be more useful to get information regarding the distribution of the income rather than the income itself As regards the distribution, there were several inquiries instituted by the Chanakya Society at Patna under the guidance of Mr Horne But those inquiries were undertaken 4 or 5 years ago, and I don't think they are pursuing their investigations I had myself collected a large number of family budgets from different parts of India and some of them have been summarised in my vernacular publications I have no abstracts in English, but I shall give them to you later on I have got some family budgets collected very recently from certain villages in the United Provinces For instance, I tried to estimate the economic holding in some villages in Oudh, the agricultural income in relation to different crops as also the incidence of land rent in relation to the total profits of agriculture I shall be very glad to furnish them to the Committee Mr. Bhatnagar has also been collecting some information regarding family budgets In fact, family budgets are now being collected in almost every University and in almost every college of India, and if you can write to some teachers in economics, I think you will be able to get adequate information

Sir Percy Thompson. *Q*—What methods do you adopt to arrive at your estimates?

A—The way in which the estimates were arrived was this A questionnaire was framed and the boys went to the villages and collected information item by item I think the boys paid only a single visit to the villages In very many cases these family budgets are taken at random, but if there are say, a thousand budgets collected, you can arrive at a representative family budget What I attempted to do was to select the different classes of the population the artisans, the landlords, the day labourers, higher middle class and the lower middle class, and having graded the population by that method, I attempted to introduce my students to some representatives of the different grades of the population If you took the lowest possible grade, in order to form an opinion as to what a proportion it represents of the total number, you will have to refer to the Census Report, for instance the population which occupies the lowest rung in the economic ladder is composed of the landless day labourers In the case of the landless labourer his economic position is the worst If you take the cultivators, we grade them according to their indebtedness. We first see which of the cultivators have got debts running from generation to generation and we discriminate between the wealthy and non-wealthy cultivators, and in most parts of India the wealthy cultivators have land hired from non-wealthy cultivators

Q—How did you ensure that they were the average specimens of their class and not specially selected specimens collected with a view to arriving at a particular conclusion?

A—We followed the mere arithmetical method, as it has been done in Europe. There the average is the result of many arithmetical averages For instance, if we take a village of 500 cultivators, I would collect 300 family budgets at random, and the average will be reliable, but in most cases we have, say, 5 or 10 In the absence of any other information, we have to rely upon the methods followed by people in different Universities and Colleges who are collecting the family budgets, and if these are vitiated on account of their bias and prejudice, you have to accept the consequences I think that what the Taxation Enquiry Committee really needs is adequate information as to the distribution of income and expenditure

Q—We are also asked to make suggestions as to how the existing material, which you say is inadequate, should be supplemented and what is the most suitable agency for the wider economic inquiry. Have you considered the question of the wider economic inquiry and what it would involve in the way of legislation, administrative staff, time and expense and so forth?

A—I have considered this aspect of the matter, and I want to emphasise in this connection that such an inquiry, if it is to be a very effective step in distributing the burden of taxation, must deal particularly with the condition of the cultivators of different classes and types in different parts of India. That is why I think that an investigation into what is called an economic holding would be so essential, but I do not think that an all-India body like this can do very much in that respect. Purely from the point of view of taxation an inquiry into the total wealth and the average income cannot help us very much, because we must get at the distribution. In many parts of India agriculture has become unprofitable and one of the causes of that is the heavy burden of taxation on land. That is the reason why I want to arrive at a conception of an economic holding which would be the barrier against the unwise use of taxation.

Q—Do you think an estimate of the whole wealth of the country would be of any use from the point of view of taxation?

A—A census of production of the organized industries would be very important in connection with the levy of duties in the way of super profits tax and other taxes or again the question of protective tariffs would also come in and we will have to consider the technique of production and things like that in connection with arriving at an estimate of production. Statisticians say that much cannot be gained by a mere inquiry into the total wealth of the country. But you must have in the first place a census of production of organized industries. As a matter of fact they took several years in England and it involved legislation and they also had a very large and highly trained staff for the purpose. Wages Census of course has been taken from time to time and I don't think any new inquiry is necessary in this respect. We have Shirras' publication, and some information is occasionally published in the Labour Gazette.

Q—Could you make a census of wages without bringing compulsion to bear upon all employers to return wages?

A—I do not think legislation is essential in that respect.

Q—Your census would be quite incomplete if certain employers returned wages and certain others refused to return. I mean to ascertain the general rate of wages in a particular industry. If only 10 per cent of the employers filled up the forms and returned them, you could not get an accurate idea of the wages in that particular industry. We have just had such a return from Madras and the reporting officer says that it is quite incomplete because the great majority of the employers would not send the return.

A—I had been to different employers even in Madras and I did not feel any difficulty in getting the desired information on the wages paid by different employers in the different industries.

Q—Can your information be complete unless you have got a return for all the people employed in the industry?

A—It is a pity that such information is not collected at the time of the population census. Then it becomes much easier.

Q—What sort of staff would you require to get a census of production for the whole country, industrial, mineral and agricultural and a census of wages?

A—I am afraid I have not much administrative experience in that line.

Q—What is your experience of the present reporting of prices?

A—They are more definite as regards non-food crops which are exported abroad than the reports of food crops.

Q—They are taken from the customs figures are not they?

A—Forecasts of yields as well as prices of the non-food crops are much more definite and precise.

Q—Do you regard those forecasts of yields as accurate?

A—They are much more definite than the forecasts of yields and prices of the food crops.

Q—Have you read the comments of the Cotton Committee or Mr. Dutta or the Sugar Committee on this point? They condemn these statistics as wholly unreliable

A—The statistics of food crops and other foodgrains are even more unreliable.

Q—That is what we are informed That is why I am asking you how you would set about getting reliable figures

A—May I read out this sentence, which has some connection? (Reads from his papers) "The recent famines reveal our ignorance of the quantities of foodgrains available other than wheat and rice and a Committee of the Board of Agriculture which discussed the whole question of Government famine policy were of opinion that similar care should be taken to get correct information with regard to the production, consumption and movement of food crops for which forecasts are at present issued in order that information may be available with regard to the stocks held and the crop prospects at any time"

Q—You say "similar care should be taken" Similar to what?

A—Similar to that for the non-food crops

Q—The reports of committees have stated that figures for the non-food crops are not accurate

A—I think jute and cotton figures are more accurate

Q—Can you refer us to any jute figures?

A—Yes, they are published by the Government of Bengal I am referring to forecasts

Q—Could you tell us how they are prepared?

A—There is a proverb which is very current among villagers that we have to depend ultimately upon the chaukidar for the actual estimate

Q—You depend entirely on the chaukidar In certain districts there are no regular village servants

A—In the case of the non-food crops, the returns of the Magistrate, the Deputy Magistrate and the Sub-Divisional Officer are checked by the Department if they did not tally

Q—If I put it to you that in one province certainly the merchants invariably add 25 per cent to the Government estimates because they consider them always to be underestimates, will that surprise you?

A—I think in Bengal the Calcutta Chamber of Commerce is a healthy check against inadequate or inaccurate information

Q—Don't many of these commercial firms get their own forecasts because of the inadequacy of the Government returns?

A—I have no information in that respect I think in Bengal they depend on Government information

Q—They do use the Government forecasts but they also have their own reports. They do not depend very much on Government returns These have been condemned by committees for commercial purposes

Turning to the question of distribution, you say we should depend on the family budget. I take it that your idea is that we should look for the poorest of each class that is hit by a particular tax.

A—Yes

Q—How would you divide the population into classes with reference to the taxes that hit them?

A—I tried to formulate such a division in one of my earlier books 'The Foundations of Indian Economics' I began with the landless day labourer, then the ordinary cultivator, then the cultivator who has got a lease of land, who is also an intermediary or the rent-receiver, then the different classes of artisans, then the lower middle class then the higher middle class and then the trader

Q—What taxes affect the landless labourer?

A—All the indirect taxes would affect them.

Q—All of them? The duty on champagne? Income tax?

A—The salt tax would affect them. Customs would affect them Their consumption of cloth is very limited, but even that is proportionately great. Landless labourers do wear imported cloth. In Assam, in Orissa, in the Punjab

and in the Central Provinces he wears his own home-spun cloth but in other parts he does wear imported cloth.

Dr. Paranjpye. Q.—Does he not wear ordinarily Bombay cloth of lower counts?

A.—I am speaking of my experience in Madras, Bengal and the United Provinces. I do not know very much of Bombay

The President. Q—What determines the fact that in one province the landless labourer wears home-spun cloth and in another a more expensive cloth?

A—It depends upon the tradition of utilising idle or surplus labour In some parts of India agriculture occupies only half the year and for the rest of the year the landless labourer would be carting or mending roads or spinning or doing things of that sort In the three provinces I have mentioned, the landless labourer is a very thrifty person and spends his leisure in weaving The landless labourer in the Punjab, Assam and the Central Provinces is better off, but he is the most miserable person in Madras

Q—When you speak of the landless labourer, are you referring to *Parakudis* and *Pannayals*?

A—I am speaking of the *Puleyas* and the *Ezhavas* The man who works under a *Mirasidar* more or less as a serf

Q.—You say he buys cloth? Is it not given to him? Does the *Mirasidar* pay a money wage? Does he not pay his labourer in grain and give him a cloth on occasions of marriages festivals etc Does the landless labourer pay a tax on cloth?

A.—He may not purchase cloth himself in that particular tract and under those peculiar conditions but as a matter of fact, the landless day labourer does purchase cloth in those parts of India already mentioned and in Madras in the Cauvery districts

Q—That is the place I am referring to the *Parakudis* and the *Pannayal* in the Cauvery delta who, as you say is a serf

A—I think you were referring to the *Puleya* in Malabar

Q—Let us take the *Parakudi* and the *Pannayal* in Tanjore You know Mr Andrew's book which deals with these very persons? I forget the name of the book for the moment He is a very celebrated missionary in Chingleput He made an inquiry into the bonds by which these men are held in serfdom

A—I have myself made inquiries but not there

Q.—Does the landless labourer pay any other tax?

A—I think in many cases they depend on village made molasses but in those parts where the indigenous sugar making industry has deteriorated they have to buy the imported sugar They pay on that They do so in Bengal in particular and in Bihar

Dr Paranjpye Q—Does he pay on his liquor?

A—Country wine still forms a large item in his expenditure and he does pay

The President Q—You count that as an unavoidable burden?

A—I think so, because in particular parts of India where the wet variety of rice is grown, the cultivators have to work knee deep in water in the cultivation season for at least $2\frac{1}{2}$ months and he must need a stimulant like that Toddy is a stimulant

Q—I take it you are not one of the advocates of prohibition If we proceed a little higher up, where do we come in contact with another tax?

A—I shall give you a note on the agricultural labourer that I have written which might interest you

Q—Perhaps you would leave this question of the taxes that affect particular classes till you had time to consider it further?

Now, we will proceed to the note which you have so kindly sent us You say

> "It has been estimated that nine-tenths of the rural population of India live, directly or indirectly, on the produce of the soil In a country where agriculture is the predominant occupation the field produce naturally furnishes the mainstay of taxation yielding approximately 40 per cent of the revenue"

Could you tell us how you arrived at that?

A.—It should be 30 per cent, not 40 per cent. I got this figure from one of the Government reports That simply represents land revenue That is the figure arrived at by Mr. Shirras also

Q—Then you say, "In Bombay and Madras the land revenue is assessed upon each acre according to fertility, facilities of irrigation, price-level and general economic condition in villages, irrespective of the fact whether the cultivator has a surplus income or not." And you proceed to develop your own scheme for exempting certain incomes I do not quite follow whether your scheme is a scheme for putting a tax on land or on the land value

A—I want to abolish the present system of land revenue altogether and I want to introduce a system of taxation of agricultural profits as is in vogue in a country like France A tax on agricultural income

Q—Not a tax on land values?

A—Except in the urban sites

Q—If a man chose to neglect his land and not to make an income from it, he may continue to possess that land to the exclusion of other people but he pays no tax at all

A—The possibility of a neglect or misuse of land is very rare in a country of very dense population as India and China

Q—Perhaps the word "neglect" was a bad one Possibility of uneconomic use of land Take one instance We have a great deal of evidence before us of the prevalence of fractionisation of holdings going on to such an extent as to reduce large areas of land practically to being uneconomic and unworkable

A—That introduces us to a wider issue I believe that the evil can be met only by legislation in that respect Because it will result in discouraging the continuous increase of the class of rent-receivers and intermediaries. In Madras, in Bombay and in Bengal in particular the ordinary cultivators are ceasing to labour themselves and they are becoming more or less rent receivers To some extent the system of taxation is responsible for the growth of this class and in this way When agriculture becomes unprofitable—and the causes why agriculture has become unprofitable are numerous and one of them is the *burden of taxation—the tendency is encouraged to speculate in land, so that* we are gradually face to face with the phenomenon of a system of capitalist middlemen being introduced into the villages

Sir Percy Thompson Q—Into an unprofitable industry?

A—Yes They take the land and then sell it off That is why evictions and forced sales are far more numerous in places where there is large fragmentation of lands

Dr Hyder Q—Are you not aware of the rise in the price of land in Northern India? If agriculture is unprofitable and still people buy land, how do you explain it?

A.—Land is going away from the class of people who live by labour into the hands of those who do not live by labour and these people are generally recruited from the higher middle class who can pay a higher price for the land That is a very hasty generalisation but such a conclusion like this is applicable to many regions in India where enquiries relating to agriculture have been undertaken Even in the Punjab you note an enormous increase of the tendency for the cultivator proper to be gradually superseded by the rent-receiver Many causes are encouraging this system of treating land as a commodity which is meant for the highest bidder That is a very unsound economic system

The President Q—May I invite your attention to the result of one of the inquiries by Mr Calvert? He says on this very point that the decrease in the revenue derived under British administration has facilitated the introduction of the evils of high land prices and resultant speculation by non-agriculturists, that is to say, that the decrease in revenue demand which was intended to benefit the cultivators has actually led them into temptations which they have been unable to resist and into troubles which were new Do you accept his conclusions?

A.—I agree with the previous sentence that where there is practically no alternative to agriculture, it is possible to make heavy demands on agriculturists without driving them to abandon their industries In many of the villages

agriculture being the chief occupation, the handicrafts and other subsidiary occupations which utilised their surplus labour have now deteriorated and the cultivators do pay a higher price for the land

Dr Hyder. Q.—If agriculture is unprofitable, where does the extra money come from for investment on land?

A.—There is a readjustment of the classes which accompanies the redistribution of this income Those classes which can pay and which have a larger surplus buy the land.

The Maharajadhiraja Bahadur of Burdwan. Q.—When you use the word 'unprofitable', you mean that the holding is not unprofitable in itself from the point of view of yield, but it has become unprofitable to a particular class?

A.—Yes That is my point That is why I say there is a redistribution which accompanies the readjustment of economic status of the different classes. The increase in the number of tenants in the Punjab is not due to more areas being taken up. Those figures have to be compared with the figures of forced sales and evictions, and you will see how they tally Even in years of agricultural prosperity land is being alienated That is why in the Punjab the Land Alienation Act was passed, in fact even that Act has not been able to check the continuous grip which the capitalistic middleman or the non cultivator is getting over the soil Land is not at all profitable to the class which ought to subsist on it by labour These intermediaries sell their land after a year or so and they get something in the transaction

Q.—Supposing the amount of the land revenue was equal to the economic rent of the land, would the cultivator who has to pay land revenue equivalent to the rent of the land, sublet his land?

A.—The point is this, that the land revenue encroaches upon the economic rent, and agriculture for that particular class being unprofitable land is transferred Land revenue is larger than the economic rent, and the tenant, after paying his rent to the landlord finds that he has not sufficient profit, nay he often falls into debt and goes to a *Mahajan* who swallows up that land In the Punjab, for instance, these rent receivers have been increasing by leaps and bounds, the same is the case in the Central Provinces These are the two provinces which have the largest number of *Mahajans* Mr Calvert who made an interesting study of this subject says that of all parts of India Punjab shows the largest number of cases relating to land transfers and land disputes

Sir Percy Thompson Q—The impression I got from your pamphlet is that you consider that it is the heaviness of the land revenue which is responsible for the non-prosperity of the cultivator

A—I do not lay the whole blame there It is not only the high land revenue which is leading to this sub letting, but there is also the indebtedness which has continued from generation to generation Besides this, he has to pay rent and also interest on the capital, and both these have to be paid periodically In some cases he can afford to delay the payment of interest, whereas he cannot delay the payment of rent, so that it is the burden of taxation which taxes him most His indebtedness is increasing year by year, and even from generation to generation He has also to lay by a certain portion of his profits of agriculture, if he has any, to pay back the debt and also the interest on it Now the conception of economic rent does not arise in this case, because on account of indebtedness the balance between agricultural costings on the one hand and profits on the other, does not show any surplus The simple conception of economic rent as applicable to land is the tradition bequeathed by Ricardo but with the growth of the complexity of our land tenures, and of the class of rent receivers, the Ricardian theory does not apply Again, when we have profits, the theory of rent would apply The Ricardian hypothesis believed in only two persons, namely, the cultivator and the landlord, but we have in between so many intermediate rent receivers from the superior landlord to the petty inferior landlord, with the result that agriculture does not pay That is why I am pressing for an inquiry to discover the size of holding that would actually yield so much as to cover the necessary agricultural costings, so that if any surplus remains, that must bear the burden of taxation Even in the case of income-tax, you have laid down the limit of Rs 2 000 My whole point is that large numbers of people continue in agriculture at a loss Even in the Punjab where agricultural prosperity is said to be the greatest as Mr. Calvert thinks, there is a large body of people who cannot abandon their land and cultivate at a loss, and the sale value of land is increasing year after year in spite of the fact that the return from it is continually falling

Q.—You refer to the inequity of increasing the burden of rent in the permanently-settled tracts Is not that checked by tenancy legislation? How can rents be increased?

A.—Rents in Bengal are rising from period to period and there are different methods of increasing the rent in spite of the tenancy legislation In Bengal the creation of a class of *patnidars* and *dar-patnidars* has been a serious and very great evil which is going to be remedied by an amendment of the Bengal Tenancy Act

The Maharajadhiraja Bahadur of Burdwan *Q.*—In Bengal the actual superior landlord is not the man who makes the biggest profit Rack-renting is by the *patnidars*

A.—I have referred to them in my note It is the intermediaries who are squeezing the cultivators The only way by which we could get at these intermediaries is by imposing heavy duties For instance, during each transaction we might levy a heavy fee on transfers, also during succession, duties may be levied when the *Karta* of the joint family or any coparcener of the oldest generation dies If you impose a duty when the *Karta* dies, it would be more in consonance with Indian traditions When a change of management takes place, we can always identify the managing member either under the *Mitakshara* or the *Dayabhaga* law The imposition of succession duties will not lead to partition of joint families I do not think an annual levy would be appropriate, and I consider it will be more equitable to levy a tax on the whole property when the head of the family dies

Q.—Now coming to the question of economic holdings, would you please tell us what you mean by economic holdings?

A.—By an economic holding, I mean, a holding which just pays its way and leaves no surplus, and under my scheme I would exempt from taxation such economic holdings which will just pay their way I would suggest a system of progressive taxation on agricultural incomes from land above the size of an economic holding, which of course would vary according to the soil and other factors We should have economic circles throughout India just as they have in Bombay There has been very great fragmentation, and we should take care to see that we do not levy a tax on a holding which cannot bear it Fragmentation is the last resort of the cultivator When everything fails and when families cannot send emigrants abroad or to the mills or plantations only under those circumstances it is conceivable

Q.—Then, as regards the cultivator, you think that the cultivator in the Punjab and the Central Provinces are all equally strong and efficient?

A.—For very wide areas you can get a similarity of agricultural conditions You will find not great difference in skill, nor difference in the rotation of crops nor difference regarding irrigation and marketing facilities and then if we group several villages in that circle we might find the representative economic holding

Q.—With this small holding, would you not still find that one cultivator can make one holding pay and another cannot?

A.—Obviously there are difficulties but we have to draw the line somehow and somewhere

Dr Paranjpye. *Q.*—Would you recommend the taxation of an uneconomic holding so that the greatest amount would be produced on the land?

A.—No country has ever attempted such a drastic measure

Q.—In a large number of countries there are laws now actually in existence for the purpose of securing an economic holding, *e g*, in France, Denmark and in various other countries

A.—I think the difficulty is due to my use of the phrase "economic holding" You might use "economic cultivation unit." That would be a better expression because "economic holding" has now a significance of its own since those attempts have been made for consolidation of holdings But "economic cultivation unit" is a cumbrous expression.

To Sir Percy Thompson—If you tax uneconomic holdings where would the people be then? Suppesing you find that in one region agriculture has become unprofitable for 50 per cent of the peasants.

Q—They would combine two uneconomic holdings and make them into one economic holding The man would sell his piece to his next door neighbour

A—We cannot expect that immediately

Q—You think it is much better that the man should expend his labour on a thing from which he cannot make a living?

A—To avoid that the organisation of co-operative consolidation societies and the introduction of legislation as recommended by Keatinge, would be much more beneficial

Q—There must be a point at which the man cannot earn a living out of that holding It must be too small for him to earn a living

A—He has to be there

Q—But he cannot earn a living Do you want to perpetuate that sort of thing?

A—We cannot expect that under our present social circumstances the whole family will migrate and work in industrial cities

Dr Hyder *Q*—Why not What is it that binds him to that place? I thought economic factors would make him go where he could earn a living

A—We do not expect that There is the attachment to the soil There are social customs There are so many other factors

Q—Attachment to the soil can only arise because of the fact that they derive their living from it When they do not derive a living from it, what is there that attaches them to it?

A.—That is the worst of it That is why we find agricultural societies so hampered because of the tenacity of the people to the soil

Dr Paranjpye *Q*—You are going to encourage this tenacity by exempting uneconomic holdings

A—My scheme would relieve the burden and make that holding profitable

Sir Percy Thompson *Q*—But then there will be further fragmentation

A—We will have laws against fragmentation and will organise co-operative societies to effect consolidation of holdings

Q.—They might do that now

A—I think some sort of legislation is necessary as in Japan, for instance where if half the cultivators agree to consolidation, it is compulsory on the rest to join the scheme

Q—My point is this Supposing X acres are uneconomic to-day with a land revenue upon it There must be some figure X—Y which would be uneconomic even if there is no taxation and if you remove the taxation, the tendency will be for the uneconomic holding to get down to X—Y in time You won't cure the evil; you will only intensify it

To the President—I regard with very great misgivings the effect of the increase of rent receivers in the Punjab and Mr Calvert also agrees that a large portion of the profits which ought to have gone to the cultivator are taken by a class which escapes from the burden of taxation

Q—Don't you agree that the increase in the sublettings is due not to the weight of the land revenue but to its being so low, because there is a bigger margin between the land revenue and the true rent of the property?

A.—Your analysis does not take into account the circumstances which compel a man to be attached to the land even though it is unprofitable. We are not swayed by economic causes like these—especially the peasants.

Q—That is politics and psychology, not economics.

A—I think economics does not give the whole solution to the problem. It is psychology that gives

Q—I do not think economics and taxation should encourage something which is uneconomic

A.—My idea of the economic cultivation unit would be that which just pays its way. Beyond that you can levy your tax as you choose. But you must agree with me that the land which just pays its way should not be made to bear any tax. If you tax it, you are levying a tax on the family subsistence.

Q—Go a little further and say that you should not levy a tax where it is below that economic holding

A—You should not levy a tax because the family would continue there with increasing indebtedness and would be paying the rent or tax by stinting the absolute minimum of subsistence apart from any ideas of comfort

Q—Your taking away the tax does encourage the tendency to stick to the land to the very last gasp even though you are not earning anything out of it.

A.—You don't have the same logic when you set a barrier against the limit of taxation on income, do you?

Q—No, because income-tax is a very different kind of taxation. Income-tax is purely a personal taxation whereas land revenue is not. Land revenue is payment for an asset the use of which you have

A—There we differ I have been emphasising that in many parts of India land is not an asset in that sense Only intensive inquiries can help us to formulate definite conclusions regarding this and I think I have emphasised one aspect more than I should have done But this is just to draw your attention to a particular side of the distribution of taxation which I think has been neglected

The President *Q*—As you are on the point whether land revenue is a rent or a tax, I believe you hold the opinion that absolute rights of property in land are not compatible with Indian revenue and administrative traditions.

A—Yes

Q—Let us turn to your estimate of the expenses of cultivation of a holding in Bengal On what do you base your estimate of Rs 12 for weeding expenses? Is it not very unusual?

A—These estimates were obtained from the statements of the peasants themselves

To Dr Paranjpye—It is not done by the man and his family. They hire extra hands I have not calculated the cost of labour of the members of the family in my estimate That does not come under the expenses of cultivation

Q—You are no doubt familiar with Mr. Jack's book? What he says on this point is that the man himself will do all this kind of work. "There is no employment of hired labour at all" If it is an economic holding he ought to be able to do this kind of work himself.

A—Other members of the family do engage in weeding and harvesting but they have to employ extra hands

Q—You are showing for weeding a sum almost equivalent to rent. Then you show Rs. 12-8-0 for harvesting May I read to you Mr. Jack again on the subject of harvesting about the Faridpur farmer? (Reads a passage)

A.—That is an ideal state of things. The reality is different from what Mr. Jack describes

Q—May I suggest that the peasants whom you interviewed must have been some of those owners of fertile land at Dacca and Mymensingh who are too prosperous and too proud to harvest their own crops?

A—I have also got other estimates obtained from villages in Oudh which I visited.

Dr. Paranjpye *Q*—Estimates given by cultivators who cultivate the land themselves?

A—Yes

The President. *Q*—Could you find any cultivator in any other part who showed a net profit?

A.—I gathered my information from a large body of cultivators, so that each might check the other. For instance, when I got an estimate of the expenses of cultivation I had them checked at once by all of them

Q—Do you dispute the correctness of Mr Jack's inquiries? I thought they were accepted as being one of the most complete inquiries that were made with a staff of 200 men

A—Perhaps his description applies to that particular region of Faridpur.

Dr Paranjpye *Q*—You say in your note, page 110 "Out of these, 36 maunds will be required for domestic consumption and 24 maunds will be kept as reserve stock" What do you mean by 'reserve stock'? Do you mean that he sells it for other expenses? If this is the average, then 24 maunds is a profit according to you

A.—He would not sell that The saleable surplus is 40 maunds This 24 maunds is reserve against the fluctuations of inclement seasons If what Dr Slater has calculated is true that you have every three years two successive seasons when the crops fail, then even 24 maunds would not suffice

The President *Q*—You do not get that in the rice lands of Bengal?

A—No

Q—Your figure of Rs 1-4-0 as harvest price—is that the price of rice or of paddy?

A—It is paddy

Q—Even for paddy it is a very low price

A.—In the threshing fields the price is very low, especially when the harvest has just been reaped

Q—What is the proportion of the price of rice to that of paddy?

A—I cannot say at once I have to look into my notebooks

Q—The latest harvest price of rice per maund in Bengal is Rs 6 That is why I am asking you about this figure of Rs 1 4 0

A—I took the facts down as they were given by the peasants I do not think there would be any discrepancy I come from a village

Q—You say that the average cultivation unit in the United Provinces is less than 2 acres

A.—That was the result of the investigation by Mr Sham Bihari Misra He calculated the average number of acres per plough and per cultivator He had two sets of figures, one for intensive cultivation and the other for ordinary type of cultivation Mr Misra is now Registrar of Co-operative Societies. I have summarised his report. (Reads) "He inquired into 18 United Provinces districts and he found that the average area in acres per cultivator who undertakes the ordinary type of cultivation is 7·83 and 1.68 in the intensive type" I show in this table (showing the table in manuscript) the density of population in each of these districts and other details.

Q—You say on page 111 of your note that the average cultivation unit is less than 2 acres whereas you say now that Mr Misra has estimated it to be 7.83 acres

A—Mr Misra also says (reads) "that in some districts the plots are found to be as small as 25 or 30 sq ft."

Q—You say at the foot of page 111 "In 1917 France introduced an income-tax on agricultural profits as distinguished from land proprietorship at the rate of 3¾ per cent" You are aware that it was raised to 6 per cent in 1920 but quite recently it has been raised to a level with the rest of the income-tax, so that there is no favourable taxation on agricultural profits?

Dr Hyder *Q*—You say "A pair of oxen—Rs 40" The Maharaja thinks that this estimate is too low. If you had said Rs 40 each, that might be possible

A—This was from a village very much in the interior When I got the information, I tested it.

The President *Q*—You say that "the great majority of the farmers were virtually exempt from all payment"

A—My source of information is Seligman's article which appeared in the Quarterly Journal

Q—You say that "during the war the basis of assessment of farmers' profits was raised to the full annual value" During the war and for a short period after, it was twice the annual value, and now it is once *the annual value*

The last sentence of that paragraph must, I think, be a misprint Would you mind explaining what you mean by "five *men*"?

A—It ought to be "five *persons*" That is the average number of persons in an Indian family.

Q—That is, "A man with a family of four cannot pay a direct tax in money amounting to 40 per cent of the gross produce" How do you get 40 per cent? I would suggest to you that the Punjab figure is 5 per cent

A—That is my view On an average you can have it like that In the Resolution of the Government of India it is something like 50 per cent

Dr Paranjpye *Q*—Of the net produce That is the theory, is it not?

A—Yes

The President *Q*.—That was the old theory You are aware that even in temporary settlements, a limit is always put to the increase, sometimes as low as 12 per cent?

A—My whole point is this When a Settlement Officer estimates the expenses of cultivation, he exaggerates the income and minimises the expenses

Q—Can you give us any instance at all, where the assessment is as much as 40 per cent not of the gross but even of the net?

A.—One will have to engage oneself in an investigation like this for a month or so in particular areas recently settled

Q—Can you quote at least one instance to justify your general statement?

A—I think I can make that general statement. In Bombay and Madras it is the non-official public opinion that calculation of net assets there is entirely untrue to the economic facts

Q.—Granting that we can have a difference in opinion as to what are the net assets, have you ever worked out the proportion of the land revenue to the sale value of the land?

A.—I did it in many cases from different districts and provinces I have visited almost every part of India down to the Cape I have been in the Punjab for many years

Q—Let us take the Punjab where Mr. Calvert has worked out the exact figures from the administration of the Court of Wards estates where you have to account for every pie.

A—If you have seen the intensive regional inquiry of Professor Bhalla in Hoshiarpur you will find quite a different tale there

Q—May I take it that you dispute those figures?

A—No

Q—Those particular areas are getting off with 5 per cent of the gross and these are based upon the actual figures of the administration of Court of Wards in estates in which every penny of income and expenditure has to be accounted for

A—The whole difference has arisen as to what you call net produce and what you call gross produce in those areas?

Q—Even in these figures which you got from the peasants themselves I thought there might be overestimates or underestimates There cannot be any question as to what the gross produce is Sir James Wilson estimated that the land revenue equals about 6 per cent of the average value

A—That might perhaps have been a hypothesis and it cannot have been based on actual estimates My point is that the Tahsildar or the Manager in charge of the Court of Wards does not sell any produce The Court of Wards administers estates and it has nothing to do with the purchase or sale of crops, and I do not think that the figure given by Sir James Wilson was based on actual return The Court of Wards is not like a landlord, and particularly in Bengal and the United Provinces the Court of Wards does not deal with the land directly

Q—Now have you examined any returns of the Co-operative Departments as to the causes of indebtedness? What percentage of indebtedness is incurred in order to pay land revenue?

A—I don't think we can estimate that, because we have not adequate information

Q—Then you quote from Sir James Wilson regarding the system of assessing the land revenue What is the system of assessing the value?

A—The quotation is from Sir James Wilson, and I think it was taken from one of the Administration Reports of the Punjab I shall give the reference later on to the Committee

Q—At page 111 of your leaflet you say that "according to the latest Government estimate we require a minimum of one fifth ton of food grain per head per annum including wastage and seed" How do you arrive at that estimate?

A—It was taken from one of the Reports of the India Food Stuffs Commissioner who was appointed during the war when we had control over the export of wheat Shall I tell you how I arrived at the rest of the estimate? My calculation is very simple I took the Government estimate of 1/5th ton of food grain per head and I multiplied 318 by one fifth The figures are mostly the result of guess work and the question is whose guess work is the right one I shall stand by my guess

Dr Hyder *Q*—You quote from a *firman* of the Emperor Aurangzeb It implies that there is an inequitable distribution of *agriculture and that the* country exports 4 to 5 million tons every year If there is nothing to export, how is anything at all exported from the country, and secondly, how does it lead to an inequitable distribution of national agriculture? What is it you mean?

A—We exchange food for imports If we had an enormous agricultural surplus or an industrial surplus we might have well endured this food shortage by getting the necessaries from Burma or Australia

The President. *Q*—Then you refer to the palmy days of Moghul administration, and both the quotations refer to the same period?

A—Yes My whole point is that we had then an elastic system

The President then read a passage from Moreland's History and asked the witness to say if that passage also referred to the palmy days.

A—I still contend that in those days the system was far more elastic than now

Q—Coming to the increase of land revenue which you say has taken place, have you compared the increase to the increase in prices?

A—The proportion of the increase would be available from the table on page 113

Q—I don't quite follow the tables You have utilised index numbers of agricultural incomes They do not apply to the years against which you set them.

A—The figures for the particular years are not available, and that is why, as I have shown in the foot note, I have used K L Dutta's figures

Q—What do you mean by index number of agricultural income per head? Do you mean the index number of prices?

A—This is the result of Dutta's calculation of the cost of living and the increase of prices It is an index number of the agricultural income taking into account the harvest prices and cost of living (Reads) "The quantity of surplus food grains and the entire production of the other crops for the several quinquennia have been weighted according to the index numbers of the average wholesale prices of the different classes of commodities and also the relative prices during the basic period Index numbers have then been constructed of these totals as indicative of the t tal income of the agriculturists"

Sir Percy Thompson *Q*—Taking your figures, the income has gone up from 100 to 160, *i e*, by 60 per cent whereas the land revenue has not increased in anything like the same proportion

A—Not in the case of the United Provinces But in Madras it is different.

(After discussion it was found out that '51" in the printed note was a misprint for "511" on page 113 of the note under heading "Bombay Land Revenue for 1913-14", and that the figures 0 9 5 were a misprint for 1-9 5 under heading " Increase of incidence of land revenue per head of population, Madras" on page 114)

Dr Paranjpye *Q*—Take the Bombay figure of increase of incidence of land revenue I do not think you are correct in saying that the land revenue has more than doubled itself in Bombay during these 17 years

A—The figures are quite all right They are from the Statistical Abstracts.

Q—Probably the mistake you made is you took the figures in the Bombay Budget for 1901 There was a divided head probably in that year or probably the apportionment of revenue was different, because the total revenue has not doubled itself at all whether it went to Provincial or Imperial Government during these 17 years in Bombay Where did you get the figures for 1900-01 from?

A—I got them from Mr Gokhale's speeches when he spoke against the Military Budget in the early nineties.

Dr Paranjpye—Unless there was a great amount of arrears recovered in that year, you will probably find the figure wrong

The Maharajadhiraja Bahadur of Burdwan *Q*—In your idea of the taxation of agricultural income, I understand you said at the beginning in reply to questions that you want to do away with the present land revenue system at once, that you want to exempt uneconomic lands from any taxation and that you want to have an assessable income from the agricultural profits

A—Yes

The President *Q*—To treat it exactly like income-tax?

A—Yes.

17th December 1924.

Delhi.

PRESENT

Sir CHARLES TODHUNTER, K.C.S.I., I.C.S., President
Sir PERCY THOMPSON, K.B.E., C.B.
Dr R. P. PARANJPYE
Dr L. K. HYDER, M.L.A.

Dr. BALKRISHNA, M.A., Ph.D., Principal, Rajaram College, Kolhapur, was examined.

Written memorandum of Dr. Balkrishna.

SUMMARY

I. Imperial and Provincial Relations.

II. Income Tax.

(a) Some exceptions savour of injustice. These should be re-considered.
(b) Machinery of assessment should be improved by democratization.
(c) The differential principle should be extended.

III. New Taxation.

(1) Tobacco tax.
(2) Powder monopoly.
(3) (a) Property tax on Realty and Personalty.
 (b) Land valuation tax.
(4) Tax on religious societies.
(5) License tax on establishments and luxury articles.
(6) (a) Income tax on agricultural incomes.
 (b) Estate tax or Death duties.
(7) Cotton Excise to be abolished.
(8) Octroi to be abolished.
(9) Entertainment tax and Betting tax to be imposed.
(10) (a) Tea and Coffee excise.
 (b) Export duty on rubber and coffee.

Imperial and Provincial Relations.

The constitutional provisions and the striking similarity between the financial systems of Switzerland and the U. S. A. can be a guide to us for reconstructing our imperial, central or federal finances. One principle stands out prominently in both the countries. Indirect taxes have been reserved for the use of the Federal Government, and direct taxes have been retained for the

use of the member States. Under the stress of present conditions, it is doubtful if they can continue such a simple and highly commendable distinction.

It is desirable that in India we should stick to this principle. In so doing a constitutional change will have to be made Land Revenue shall become an Imperial source and Income-tax will be transferred to the Provinces. This change will obviate the necessity of levying contributions from Provincial governments. The resources of the Central and Provincial Governments will be separate and both shall be free to develop them according to their necessities.

Imperial and Provincial Relations.

In the year 1920-21 the Revenue Heads and their incomes were :—

Provinces.	Lakhs of Rupees	Indian Govt	Lakhs of Rupees
Land Revenue	31,97 20,44	Income-tax	22,19
Excise	10,96	Customs	31,90
Stamps	5,11	Opium	3,53
Forests	1,12	Salt	6,76
Registration	6	Tributes	91
Provincial Rates			
Total	69,96	Total	65,29

Transfer Land Revenue to the Imperial and Income-tax to the Provincial Government The result is .—

The Provincial Governments will lose 978 lakhs of rupees and the Central will gain that amount

The total contribution demanded for 1922-23 was approximately the same, *viz*, 983 lakhs of rupees Here I point out a clear and comprehensive principle of the demarcation of provincial and central finance, and I believe that for a long time to come the financial policy in India can strictly be based on this broad principle

Both Governments can freely enhance their revenues by new taxation on the lines suggested in this memorandum

These are summed up here —

NEW SOURCES OF REVENUE.

Indian Government.

(1) Tobacco tax

(2) Powder monopoly

(3) Estate duties

(4) Customs Possibilities of taxing rubber, coffee and levying excise on tea and coffee for home consumption.

Provincial Government.

(1) Reforms in income taxation.

(2) Land values

(3) Real and Personal Property tax.

(4) Licenses.

(5) Educational Poll tax

INCOME-TAX.

A) Exemptions under the Law and Rulings.

(1) Exemption of incomes from agricultural lands or houses.

(2) The exemptions of incomes derived from property devoted to religious or public charitable purposes.

(3) The exemption of incomes of military officers and other statutory exemptions such as exemptions of *premia* paid in life insurance of self, wife and children, not exceeding 1/6th of the income

(4) Allowances and casual incomes, salaries of Government servants on leave in England, pensions, allowances, gratuities paid to Englishmen in England, salaries of the India Office staff The servants of the Railway Companies enjoy the same privileges of exemption while they are in England

(5) Any capital paid in commutation of the whole or portion of a pension

(6) The profits of companies registered in England from the sale of tea purchased in India The same is the case of coffee and rubber companies

(7) Sterling debt of India issued in England, though charged on Indian revenue, is exempt

(8) Legacies

There are many other exemptions but here only those have been enumerated which are objectionable and which should not be exempted The exemptions under items 3, 4, 5, 6, 7 create heart-burnings among Indians, because the whole system is partial to foreigners and unjust to Indian tax-payers. The sting of injustice can be wisely removed by placing India on the basis of the Dominion Governments and of the Irish Free State The same rules can with ease be employed here In this way India will not be deprived of her just share in the incomes of the Englishmen employed here, nor will there be any injustice done to these tax-payers by double taxation in India and England

Foreign corporations, companies or associations organized or domiciled out of India, but doing business therein, should be licensed and taxed by a mode different from that provided for home corporations. Such mode shall be equal and uniform for all corporations transacting the same kind of business

The same applies to all foreign banks.

They shall pay a license tax to the Provincial Government The like tax to the Municipality

In addition, they shall pay the income-tax according to the general rules

I am not making this distinction between nationals and foreigners. Many member States of the American Federation are levying such special taxes.

This will partly discourage the inflow of capital in this country, but in their own countries American and English moneyed-men are subject to far heavier taxes and therefore there will still be a larger margin of profit left to them

(E) Machinery of Assessment.

There is much laxity in collecting the tax at the source from the employees of tea factories, jute mills and other companies and private institutions

The interest on securities held by educational, religious or public charitable institutions is free Educational institutions may have their exemption, but others don't deserve it (See p. 135)

Professional incomes are highly under-assessed Doctors, *hakims*, *munshis*, solicitors, merchants, traders, money-lenders are inadequately taxed.

The assessment machinery is inadequate The Sialkot system is open to many objections The panchayat system is the best, but this too is highly instrumental in under-rating the income.

In each district there should be a board of income-tax commissioners, one-third to be appointed by the authorities and two-thirds by the tax-payers.

Appeals from the decision of the Board should lie with the Income-tax tribunal established in each district Like the administrative courts of the European countries, these tribunals, being exclusively devoted to revenue matters, will develop their own rules and regulations and detailed knowledge. The tribunal judges should be free from the control of the executive to inspire confidence among the people

Both these institutions will then command the confidence of the people. Though the machinery will be expensive, it will bring in more revenue. I strongly recommend some such type of popular machinery of assessment and appeal for all the main sources of direct taxation and even land revenue. Appeals shall be free of all cost.

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(1) Exemption of incomes from agricultural lands or houses.

(2) The exemptions of incomes derived from property devoted to religious or public charitable purposes.

(3) The exemption of incomes of military officers and other statutory exemptions such as exemptions of *premia* paid in life insurance of self, wife and children, not exceeding 1/6th of the income.

(4) Allowances and casual incomes, salaries of Government servants on leave in England, pensions, allowances, gratuities paid to Englishmen in England, salaries of the India Office staff. The servants of the Railway Companies enjoy the same privileges of exemption while they are in England

(5) Any capital paid in commutation of the whole or portion of a pension

(6) The profits of companies registered in England from the sale of tea purchased in India The same is the case of coffee and rubber companies

(7) Sterling debt of India issued in England, though charged on Indian revenue, is exempt.

(8) Legacies.

There are many other exemptions but here only those have been enumerated which are objectionable and which should not be exempted The exemptions under items 3, 4, 5, 6, 7 create heart-burnings among Indians, because the whole system is partial to foreigners and unjust to Indian tax-payers. The sting of injustice can be wisely removed by placing India on the basis of the Dominion Governments and of the Irish Free State The same rules can with ease be employed here In this way, India will not be deprived of her just share in the incomes of the Englishmen employed here, nor will there be any injustice done to these tax-payers by double taxation in India and England

Foreign corporations, companies or associations organized or domiciled out of India, but doing business therein, should be licensed and taxed by a mode different from that provided for home corporations Such mode shall be equal and uniform for all corporations transacting the same kind of business

The same applies to all foreign banks

They shall pay a license tax to the Provincial Government. The like tax to the Municipality

In addition, they shall pay the income-tax according to the general rules

I am not making this distinction between nationals and foreigners Many member States of the American Federation are levying such special taxes

This will partly discourage the inflow of capital in this country, but in their own countries American and English moneyed-men are subject to far heavier taxes and therefore there will still be a larger margin of profit left to them

(E) Machinery of Assessment.

There is much laxity in collecting the tax at the source from the employees of tea factories, jute mills and other companies and private institutions

The interest on securities held by educational, religious or public charitable institutions is free Educational institutions may have their exemption, but others don't deserve it (See p 135)

Professional incomes are highly under-assessed Doctors, *hakims*, *munshis*, solicitors, merchants, traders, money-lenders are inadequately taxed

The assessment machinery is inadequate The Sialkot system is open to many objections The panchayat system is the best, but this too is highly instrumental in under-rating the income

In each district there should be a board of income-tax commissioners, one-third to be appointed by the authorities and two-thirds by the tax-payers

Appeals from the decision of the Board should lie with the Income-tax tribunal established in each district Like the administrative courts of the European countries, these tribunals, being exclusively devoted to revenue matters, will develop their own rules and regulations and detailed knowledge The tribunal judges should be free from the control of the executive to inspire confidence among the people

Both these institutions will then command the confidence of the people. Though the machinery will be expensive, it will bring in more revenue. I strongly recommend some such type of popular machinery of assessment and appeal for all the main sources of direct taxation and even land revenue Appeals shall be free of all cost.

(C) The Principles o' D'ff rential Income-tax.

The English Finance Act of 1920 has been followed in India The recognition of the three principles should be extended.

(*a*) Differences between earned incomes and investment incomes. The former should be taxed at a less rate. The difference of one pie is too low (See Australian rates below)

(*b*) The tax should have more regard to family responsibilities, just as in England now.

(*c*) It should be more highly graduated beyond a certain income.

Further differences should be recognized :—

(*d*) The tax should differentiate between temporary and permanent incomes Employees of Joint Stock Companies and private institutions are not financially on the same footing as the Government servants. These have high salaries, regular promotions, allowances, railway passes and pensions None of these advantages are enjoyed by private employees These ought to be taxed at a lower rate up to grade I

(*e*) Incomes from permanent investments should not have exemption of Rs 2,000 The exemption should not exceed Rs 500

The exemption of a certain minimum and the levy of an equal tax upon exertion and temporary incomes and property incomes make the income-tax highly unjust in its operation

In India all incomes below Rs. 2,000 are exempt from the income-tax. If it is an income from property, it means an exemption of property to the capital value of Rs 40 000 from taxation, for at present 5 per cent. is the average profit of money House property does not give even this much interest in many towns Scarcely 3 per cent is obtained from investment in houses, land and even money In such a case an exemption of Rs 2,000 would represent an accumulation of a citizen invested in banks or houses of Rs 67,000. It shows how about 99 per cent of the property owners escape payment from this form of taxation

Suppose A leaves Rs 50 000 cash in the Imperial Bank for his family. His *successor does not pay any death duties, succession, inheritance, legacy, probate* duties He becomes the owner of the large amount without paying a single rupee to society. He decides to live upon the interest and thus be a perfect parasite in the nation. He receives $\frac{3 \times 50000}{100}$ equal to Rs. 1,500 annual interest and leads his whole life in idleness without being charged a single pie under the Income-Tax and any other direct tax whatsoever. Suppose he has urban property from whose rent he receives Rs 1,500 He is still free from all kinds of direct taxes.

But an insurance agent or a bank employee who lives from hand to mouth with his Rs 200 per month's precarious income and who has nothing to fall back upon and who lives in a hired house, pays about Rs 63 per annum as income-tax.

These are cases of sheer injustice. The exemption should be very low in the case of investment incomes

The States of the Commonwealth of Australia have observed this great principle in a commendable manner The following table will present the rates fixed in the first decade of this century :—

State.	Tax on Exertion Income.	Tax on Property Income.
Victoria	3*d*. in the £ up to £500	6*d* in the £ up to £500.
Queensland	Different rates	Double rates all through.
South Australia	4½*d*. in the £	9*d*. in the £.
Tasmania	6*d*. in the £	12*d*. in the £.

In short, permanent income is taxed at double the rates of the ordinary exertion income.*

*Progressive Taxation, by Seligman, pp. 94—100.

Tobacco Tax.

Articles of luxury, voluntary consumption or morally reprehensible commodities have been unanimously regarded as fit objects of monopoly for the benefit of the State. It may control the manufacture and sale or only manufacture or only sale of these commodities On this ground the liquor and opium monopolies of the Indian Government can be adequately defended. The principle should extend to the control of tobacco.

(a) In Italy the tobacco monopoly yields a very high amount of revenue. It is not less than the taxes derived from real property

(b) Prussia imposes a tax on the lands devoted to the culture of tobacco.

(c) The French monopoly is the most lucrative of all

(d) Great Britain has interdicted the domestic cultivation of tobacco and imposed heavy import duties on it

(e) In Russia and the U S A a tax is imposed upon its manufacture But this requires a close supervision and increases the cost of collection

(f) In Switzerland, too, a tobacco monopoly was proposed in 1899, the profits were to be spent for working men's insurance During the war this monopoly was again proposed, whereby it was hoped to realize twenty millions of francs a year. But the idea of monopoly has again been relinquished in favour of heavy tobacco taxes

In India Government monopoly of tobacco production is almost impossible Heavy taxation alone can be resorted to and ought to be introduced as tobacco is a harmful article and is universally used as a fashionable vice or luxury. Every country mentioned above is realizing a large revenue from the consumption of tobacco, so we too can derive an appreciable amount The estimate can be made as follows —

Land and Sea trade in Tobacco in 1920-21

	Rs.		Rs
Export . .	19,37,000	Import . . .	22,60,000
„ . .	74,92,000	„ . .	2,95,91,000
Total .	94,29,000	Total .	3,18,51,000

Duty on imported tobacco is Re 1 per lb unmanufactured, 75 per cent. *ad valorem* on cigars and cigarettes and on manufactured tobacco it is Rs 2-4-0 The Customs revenue from tobacco amounted to Rs 1 31 25,595 in 1920 21 The total domestic production is estimated to be 1 000 million lbs By laying an excise duty of annas 2 per seer of tobacco or 30 per cent of its price as soon as it leaves the field and realised from the peasant, we can get Rs 6½ crores The dwindling revenue from liquor excise can be more than made up from this tax

The case for tobacco excise is strong on economical grounds. It is an easily realizable and highly productive source of revenue

The object is not revenue only, but the deliberate discouragement of the use of tobacco

Without the excise an unusual profit is being appropriated by tobacco growers, merchants and retailers

It should be remembered that—

(a) The major part of tobacco consumed in India is produced in the country itself

(b) The import tax is levied only on a very small portion of the consumed quantity

(c) The imported and home produced kinds are sold as similar goods in the same market on almost the same prices

(d) The imported pays 75 per cent *ad valorem* duty but the home produced pays no duties The consequent rise in price must be pocketed now by producers, manufacturers and retailers They have no claim to it

(e) An excise to countervail the duty should be levied.

(f) Let the excise duty be small, but such a duty is fully justifiable on moral and economic grounds.

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Powder Monopoly.

Powder is another article of luxury used for fire works and game shooting which are in demand by the bourgeois and wealthy classes

Powder monopoly in sale can be traced to the time of Shah Jahan It was prevalent in Bengal during the first half of the 18th century. It was sought after by the Dutch, but was obtained from the Nawab by the English after the battle of Plassey. Thus even the Moslem kings have tried the same. (Author's "Commercial relations between India and England".)

Modern conditions require a change Instead of a sale monopoly there should now be the manufacture monopoly and the sale of powder should be free It will mean the nationalisation of powder production like the manufacture of spirits and liquors here

Estimates of production and net profits accruing from it should be calculated by the Finance Department

Property Tax.

Lands, houses, buildings and other hereditaments whether inhabited or not should be taxed on a graduated scale on their marketable value A tax equal to that on the building or on a more or less basis should be levied on the personal property supposed to be contained in the house The latter should be taken from the occupier of a house and the former from the owners of the house and land In towns an occupier of a house if he is himself the owner will have to pay land-tax house-tax and personal property tax. All business houses and their properties should be taxed on a separate basis The following ought to be the exemptions :—

New Railways for	10 years.
Native Steam-ship Cos	,,
Hydraulic power Cos	,,
Irrigation Cos.	,,
Friendly Societies	,,
Building Societies	,,
Co-operative Banks	,,
Insurance Cos.	,,

Every inhabited house of a certain minimum price is to be exempted, the exemption to vary in different provinces If lands, houses, as well as trade premises will be taxed on the basis of their marketable value the increase in their value due to social causes which is generally free now can be taxed Unearned incomes will pay higher share to the Government. Rents are not so sure a barometer as market prices of the various causes which enhance the value of property Peace, security, increase of wealth and population, opening up of the railways and highways, better sanitation, opening of markets, establishment of a new colony, opening up of a canal may be named as the causes of the rise in the prices of real property. Rents always lag behind. Market prices are a sensitive barometer of all this unearned increment In this way alone we can tax land values and betterments Property in many towns and cities has increased fifteen-fold in value during the last fifty years. This immense increase is in no way related to the economic activities of the owners. The claims of Government to socially produced wealth are universally recognized It is not a socialistic scheme Property in various forms is taxed in England, America, Switzerland, etc In this we will have an elastic source of revenue Prices are one of the great causes to enhance the expenditure of Governments The rise in prices will be reflected in land values and in prices of personal and real property This, in turn, will pay more revenue to the State Such an automatically increasing, so elastic and economically the best source of revenue should be placed in the powers of Provincial Governments.

Some will object to this tax because it is direct. But all civilised countries are now going in for direct taxation. In 1841, indirect taxes supplied over 70 per cent. of revenue in England, in 1900. 50 per cent but in 1919, 25 per cent. The proportion of direct and indirect taxes were reversed between 1841 and 1919. Now the rule of taxation is that taxes should not only be fixed, certain and convenient; *they should be known.*

While the old rule was 'No taxation without representation,' now the new rule that is gaining ground is that there should be no representation without taxation. As representation has been made universal by the grant of universal suffrage taxes should be levied as to be directly felt by each and every voter. Representation without taxation is not only demoralising, but is ultimately ruinous to the State There should be no class exempt from taxes, much less the modern democracy The representatives of the people who believe themselves to be privileged as free from taxation take delight in taxing the propertied classes alone Thus taxation becomes confiscation. This craze for super-tax, excess profits tax, capital levy, progressive taxation of several kinds imposes ever-increasing burden upon the rich The demos pays no tax but on account of the political power it taxes capital, industry and extraordinary talent This rage for exploitation will be much reduced by a universal direct tax like the proposed property tax

Land in the U. S A is taxable at its selling value, and if land rises in value as population increases, the land-owner must still bear his proportion of the local burdens, even though the land remains vacant or is used for agricultural purposes.

Land which specially increases in value by reason of local expenditure or any special cause is subject to *special assessments* We can follow the same method in India

To conclude—

The advantages of a tax on urban lands, houses, commercial and industrial buildings are too numerous to mention —

(1) This tax is clear, almost impossible of evasion.

(2) It is easy in administration and well fitted to yield a revenue for local purposes

(3) It is certain to yield a large revenue

(4) It is easily ascertainable and no inquisition and no inquiry into private matters is required

(5) As personal property is intangible and it must elude even the most inquisitorial methods, it is desirable to tax it on a suppositional basis that it is half, quarter or equal to the value of the house

In this way both real and personal property will yield a very large amount of revenue for local and provincial development

Charitable Institutions

(1) In France religious societies are taxed 5 per cent on the income of their capital

(2) In ancient India even ascetics had to pay 1/5th of the grain and fruit collection or seed gleanings in exchange for the protection that they obtained from the State.

(3) The Artha Shastra of Kautilya speaks of revenue from temples as one source of local taxation. There came a time when charitable institutions were exempted from taxes, but the case is no longer the same now

(a) There should be an exemption in case of institutions and temple whose annual income does not exceed Rs 600

(b) All others must pay a *graduated income-tax and property tax.*

(c) The present incumbents of many temples, mosques, and institutions are uneducated Mahants and Maulvis who are pampered on the fat of the land They are, with honourable exceptions, parasites. While efficient management of such properties ought to be done by the public, progressive taxation ought to be levied upon such estates.

Establishment Licenses.

The State shall graduate the amount of such tax to be collected from persons pursuing the several trades, professions, vocations and callings, especially distillers of alcohol or other liquors, tobacco, cigars, betel leaf vendors, grocers, motor companies, private medical practitioners, in native and English systems, dentists, watch makers, pawnbrokers, auctioneers, refreshment houses, tea and

coffee shops, dealers in fire-works, slaughter-houses, village shop-keepers, money-lenders, vendors and hawkers, bookmakers in races, manufacturers of aerated waters, cinema companies, theatrical companies, money-changers, goldsmiths, printing presses

Licence taxes were levied in India from 1880 to 1885 and they gave way to the income-tax. Some of the establishments proposed by me fall below the income-tax level. These make extraordinary profits from luxuries or the extreme necessities of the people. They hide their true incomes and even when they enjoy incomes of taxable amounts, they will pretend not to do so. They ought to pay for the protection enjoyed by them and for the extraordinary gains received by them The amount will differ according to the nature of establishment and also the locality For each province uniform rates can be put into force.

Licenses.

Dogs, carriages, servants, guns, swords, race-horses, riding-horses should pay a licence tax to municipalities or District Boards in whatsoever jurisdiction they may be This tax will fall upon the rich and middle classes for indulging in a luxurious way of living? The rates can be uniform throughout the country. They are easy of collection, certain and sufficiently remunerate

Long or Short Land Settlements.

There is a tendency to lengthen the period of land settlements in India and if possible to have perpetual settlements

Both these demands are opposed to economic principles They are the result of a deep distrust in a foreign government but now that fiscal autonomy is coming into the hands of the Indian people and a large measure of self-government is within sight, it is suicidal to proceed on such uneconomic and reactionary lines The second reason for the agitation of long or perpetual settlements is to be traced to the personnel of the Councils and of the proprietors of the press. The Councils are packed with the representative of agrarian interests, landed aristocracy or their allies, the urban bourgeois

They are unwilling to bear the burdens of the State We cannot ordinarily expect them to go against their own vested interests

The big estate holders are the most fortunate class in escaping from the just share of State expenses They are the most lightly taxed people Most of them are free from every direct tax

There are no taxes, as the following, to be paid by agrarian interests :—

Inheritance Duty.
Probate „
Legacy „
Personalty „
Realty „
Estate Tax
House „
Land value „
Income „

While in England six shillings in the pound are being paid as the rates, here less than six per cent. on the rental value is being paid by the landowners as cesses There is no tax of provincial or Imperial character which is borne by these people enjoying permanent incomes

A class thus totally exempt from taxation is a menace to the welfare of the nation

England and India.

In England the actual yield of death duties in the year 1922 23 was £52 000,000, an average yield of £1,000 000 per week as a levy upon capital.

A few years back, there was a flat duty of 8 per cent, to-day the estate duty ranges up to 40 per cent, with a further sum of from 1 per cent to 10 per cent. for legacy duty. Although the estate is generally in the form of lands, mines,

buildings, shipping, yet a large amount of the estate has to be paid in cash on the death of the owner. Take the case of the estate of late Sir Ernest Cassel. His estate was estimated at £6,000,000 and the duty to be paid to the State was £2,400,000. Thus 40 per cent *plus* charges of legacy duty were paid to the State

Thus the State takes half the estates, either built-up or inherited by landed aristocracy and urban plutocracy For moderate estates, the Estate and Legacy duties are less heavy, yet an appreciable amount goes to the treasury in England.

But the Indian talukdars, zamindars and industrial magnates do not pay anything at all to the Indian treasury.

These duties are over and above the income-tax and super-tax levied on all incomes above certain minimums.

The standard rate of income-tax is 4*s*. 6*d* in the £, and the super-tax ranges from 1/6 in the £ to 6*s* per £ above £30,000 Thus the wealthy pay 10*s* 6*d*. in the £ to the State.

This charge is on incomes and when wealth has been amassed and the rich man dies, his successor has to part with half the estate to the State

In India the big landlords do not pay a single pie to the State either in the shape of income-tax or super-tax or estate duty or legacy duty Such an exemption is unparalleled in the history of modern finance

It will be said that land revenue is paid by them. But Land Revenue is not a tax It is a small part of the rent which land proprietors receive in other countries In tracts which are permanently settled, the major portion of the economic rent goes to the zamindars They rarely pay 10 per cent to the State.

They are merely rent collectors.

The remuneration allotted to them was in the beginning 10 per cent of the rent, now they are appropriating 90 per cent. themselves and contributing only 10 per cent. to the State

For the collection of income-tax 5 per cent is granted by the government Even this is considered an extraordinary remuneration What shall we say of the 90 per cent to be pocketed by the rent collectors of the permanently-settled districts?

Inamdars form another fortunate class who are exempt from taxes Talukdars of U P and zamindars of the Punjab come next as the next fortunate class They are not owners but hereditary managers of lands under them. In the first year of the land settlement the Government might get, say 1/3rd of the economic rent obtained by these zamindars, but as the years pass on and prices of land and articles rise, more and more rent is obtained by these zamindars, but a lesser and lesser share is paid by them to the Government The society loses a share in the growing income just as it has lost its dues in the permanently-settled tracts

The State is deprived of the just share of the income which these landlords receive without any effort to increase it The increase is due to social causes, security and prosperity due to the vigilance of the State and not to the personal effort or industry of the landlords. Growth of population, economic development of the country by having more railways, canals and roads, the introduction of new staples, the demand of other countries for our products, and the rise in the prices enhance the rental All this increase is appropriated by tax-gatherers

The rent that is paid *through* landlords is not paid by them but by the tenant-cultivators The former are the servants or agents of the State for the collection of rents Hence the income received by these landlords is like all other incomes which the agents of private companies earn Just as the latter are subject to income-tax, so should be the incomes of landlords

There is one thing more to be considered They have the monopoly of collecting rents As they do not pay a percentage of their growing incomes, but a fixed amount to the State, an increasing balance is kept by them They should be subject to a special tax Or in other words the rates of income-tax should be higher in their case than in that of other schedules.

It is evident from the preceding arguments that—

(1) The landed aristocracy is contributing a most insignificant contribution to the State to which they owe their existence, protection, prosperity.

(2) While the urban wealthy class which has 'earned' and 'precarious' incomes against the unearned and permanent incomes of the landed aristocracy is subject to a progressive income-tax, super-tax and excess profits tax the land-holders are ludicrously exempt from these What is more ridiculous and even criminal, they claim to be permanently exempt from sharing the burden of the State or to be exempted for fifty years

This demand could have some justification if the rents of the tenants were to remain fixed for this period of fifty years during which the State is to receive a fixed income But when landlords are free to enhance rents, why should the State be deprived of its growing share?

(3) The landed aristocracy do not render any productive service to society They like drones live upon the fat of the land and take or command the services of others. They are the 'perfumed seigneurs' of Carlyle "The widow is gathering nettles for her children's dinner; a perfumed seigneur, delicately lounging in the Oeil de Boeuf, hath an alchemy whereby he will extract from her the third nettle, and call it rent" How strange that the tenants should be left to their tender mercies, and the State, too, should be under their thumb!

(4) Why of all the aristocracies of this planet, the landed aristocracy of India should be free from the numerous taxes levied upon them in every other country?

(5) These exclusive privileges in the modern democratic age spell for the ruin of the country There is no middle class here to serve as a buffer between the masses and classes The evil day of breaking point can be postponed by bearing adequate burdens for running the affairs of the State Otherwise, the scenes of the French Revolution and Russian Bolshevism will be repeated in this land Gross inequalities of wealth will lead to violence and revolution When the poorest tenant who can scarcely eke out his existence pays a tax, while the rich landlord merrily escapes from it, the injustice of our taxation system and social economy is indelibly written upon the minds of the masses

In this section I have been speaking of estate-holders only and not of ordinary landlords as their incomes are generally below the income-tax exemption limit.

Let us see the practice in other countries:—

Australia has an inheritance tax graduated both on the basis of relationship and amount of property It is the highest graduated inheritance tax in the world

Then Australia has another highly progressive tax on property.

In addition to the progressive inheritance tax and progressive land tax, we also find progressive income-taxes there.

The system of progressive land tax for restricting large estates in land has been introduced in *Oklahama* This tax is supplementary to the ordinary real estate tax, but is levied only on land exclusive of improvements thereon

Canada too has a highly progressive inheritance tax.

Mexico has a progressive inheritance tax, and *Japan* has both income and inheritance taxes on the progressive principle.

In *Holland* there are progressive income and property taxes coupled with local income tax.

Switzerland supplies the most successful illustrations of progressive taxation of incomes, property and inheritance

Austria too furnishes instructive examples of progressive income and inheritance taxes.

The *German* income tax, inheritance tax and the unearned increment taxes can be a useful study.

In *Denmark* there was a progressive income-tax with a supplementary property tax.

In *Norway* we find both a progressive income-tax and a progressive inheritance tax. There is a supplementary property tax and there are also local income taxes

France has progressive inheritance tax graduated according to relationship and amount of inheritance

There is a progressive occupancy tax, and a graduated business tax or *impot des patents.*

In *Italy* too both the progressive income-tax and inheritance tax are found.

The position can now be summed up thus —

(1) *Long-term settlements* deprive the society of the just share in the socially produced incomes from lands

(2) They throw the burden of taxation upon non agricultural classes.

(3) Men of independent income on perpetual flow of wealth without any work, effort or anxiety, diminish the labour or productive supply of the nation and thus they reduce its wealth

(4) The objects of taxation in these democratic days are not only the receipt of revenue, but to reduce inequalities in the distribution of wealth, to divert wealth from private ownership to State-ownership and to reduce parasitism Hence rent elements of all incomes are demanded by the State Taxes are laid upon surpluses and the extra rich are subjected to extra levies

Hence from every consideration, economic, moral, social and political, the big estate-holders should be subjected to various taxes and not allowed freedom from levies by long-term and perpetual settlements

The short-term settlements will not be injurious to agricultural interests now, because—

(1) prospective increase has been excluded from consideration,

(2) allowances are for improvements made by the cultivators or landlords, for precariousness of cultivation, and for local circumstances;

(3) the process of re-settlement is now far less disturbing and more rapid than before, the cadastral survey has very much systematized and facilitated the work,

(4) there is the progressive and graduated imposition of large enhancements,

(5) there is now greater elasticity observed in the revenue collection,

(6) in cases of local deterioration reduction of assessments is now allowed

Even if 30 years' settlements are to be kept, the fixity of Government share should mean fixity of rents to be taken from tenants The whole advantage for 30 years should not be reaped by land-owners, but it should at most be divided between both the cultivator and the owner

War Expenditure and Landlords.

Before I close this section, I shoud like to point out the burden of taxation borne by classes other than agricultural. In all countries, taxes have multiplied and increased by rapid strides All classes of the nation have borne the share of war expenditure In India too the sections of the population employed in non-agricultural pursuits have borne almost the whole increase, but the agricultural classes and especially the big landlords have contributed nothing for the increased expenditure of the State

Land revenue has remained almost the same. Income-tax, excise and customs had enormous increase as shown below.—

[Lakhs of Rupees]

Year	Land revenue	Income-tax.	Excise.	Customs
1911-12 . .	21,14	2,47	11,41	9,70
1920-21 .	31,97	22,19	20,41	31,89

Although income-tax has been decupled and thus, non-agricultural classes have come to pay ten times more than they paid nine years back, no burdens have been imposed upon the agricultural lords Rents were doubled and trebled, prices were doubled and trebled land values had abnormal rise, house rents were on the increase, yet not a single pie of this vast income was paid by the landlords even during the years of financial stress and national emergency If such is the condition during War times, what shall be the result during years of peace?

The exemption of landlords from income-tax, tax on land values, estate duties is now totally unjust and indefensible from political, economic and moral standpoints

In the Indian taxation system the fundamental maxims of taxation have not been adopted It is desirable that special heed should be paid to the canons now universally recognized and applied in all civilized countries.

"These principles of Economy and Equity are in general better observed through Direct than through Indirect taxation; through Graduated than through Proportional scales, through taxes on Rent-forms of income than through taxes on Salary forms; through higher rates on "Unearned" than on "Earned" incomes, through higher rates on wealth inherited than on wealth achieved" Dr. R Jones' "Taxation · Yesterday and To-morrow"

Educational Poll-tax—An annual poll-tax of one rupee should be levied on every male inhabitant in the villages between the ages of 21 and 50 years for the maintenance of the public schools started and maintained there.

Entertainment Tax and Betting Tax should also be considered.

Octroi—Octroi forms an important item of municipal income, but it is open to many objections It tends to increase the cost of living, is cumbersome and costly It is hated by citizens for its vexatious and inquisitorial character. A chain of low-paid officials in each area means a high cost of collection. (This cost should be ascertained in the municipalities of various sizes.) The rich escape from the tax altogether, it mainly falls on the poor for the goods personally brought by them It should be replaced by the inhabited house duty and taxes on companies enjoying municipal concessions and municipal trading

Cotton excise duty should be abolished Of course, now that the import duty is more than three times the excise and is likely to be raised still more in the near future, the excise duty should not be much objected to. It will be said that the consumer will in no way profit by the repeal of the duty The money shall go into the pockets of the factory owners and merchants The prices of the home-produced cloth must go higher and higher in sympathy with the rising prices of imported cloth You cannot have ultimately two prices for the same cloth in the same market. The Indian millowners have got an advantage now by the imposition of the higher import duties and will be able to compete with the Japanese, American and English cloths. The abolition of the duty will serve to swell their profits

I admit the truth of these arguments. We have embarked on the system of protecting home industries The cotton industry is crying for more and more protection for the production of fine quality cloths Secondly, when there is no excise levied upon the other manufactures, say, leather, iron, steel,

paper, etc , why should we pick out cloth alone for a countervailing excise duty? Thirdly, the duty of 3½ per cent is a means to discourage cloth production. For these and many other reasons, it should be done away with

Net Export and Excise Duties

I have no data in my hands to work out the whole scheme, but the question should be investigated. I give the bare outline here.

Exports of Principal Commodities in 1920-21.

Coffee	233,470 cwts.
Rubber	14,014,072 lbs.
Tea	285,751,849 „
	6,571,159 „

The export of rubber shows remarkable growth as under :—

1911-12	1,002,512 lbs.
1916-17	7,541,[illegible]07 „
1920-21	14,014,072 „

Is it not possible to levy an export duty on rubber and coffee?

Tea and coffee are heavily taxed in other countries, they are produced in this country. Can we not impose an excise duty and levy it from the owners of the plantations?

Dr. Balkrishna gave oral evidence as follows :—

The President. Q —You are Doctor of Philosophy, London, and Fellow of the Royal Statistical Society and of numerous other Associations?

A —Yes.

Q.—And you are now Principal of the Rajaram College, Kolhapur?

A.—Yes.

Q.—You have certain suggestions to make to us on the subject of new sources of income and the allocation of financial resources?

A.—Yes

Q —I need hardly point out that we have no concern with additional sources of revenue except to replace other taxes that may be found unsuitable.

A —I have suggested that two of them are to be abolished

Q —May I ask you, in the first place, which taxes you wish to reduce?

A —The cotton excise and, so far as local taxation is concerned, the octroi. So far as the liquor problem is concerned, it will depend upon the people. Of course, under self-government it means more taxation rather than reduced taxation. The Government is likely to suffer on account of the reduced consumption of liquor.

Q —You anticipate a reduction in the excise revenue?

A.—Yes, I do; and therefore we require some other new sources to replace this income Of course, I did not know in the very beginning that no new taxes were to be suggested Therefore I have laid my stress upon the various forms of taxation which are available to us in India Some of them may be adopted when the time is ripe. I do not mean to say that all of them are to be adopted at once. It will all depend upon the necessities of the State. So far as provinces are concerned, I suggest several items which may be developed and I have also suggested some other items which relate to the Imperial Government. I have also indicated in my memorandum that the principle of bifurcation of the provincial and the central finances should be based upon some well known principles. It should not be haphazard.

Q.—Do you consider the present distribution haphazard?

A.—There is no system underlying it. I think that the system adopted by Switzerland and the U. S A. in the bifurcation of their State and Central finances should be adopted here, i.e., direct taxation should go to the former and the indirect taxation should go to the Federal State This system has not been followed in India so far.

Sir Percy Thompson *Q*—What about the income-tax in the United States of America?

A—Several States have got income-tax. It is only since the war, if I remember aright, that the Federation has adopted income tax.

Q.—The war has made a very great difference?

A.—Before the war, so far as normal demands were concerned, this principle was followed Similarly, the same principle was followed in Switzerland At the present moment we are not considering abnormal demands but normal demands, and in such a case we ought not to break away from a principle which has proved to be successful for so many generations in Switzerland. In India, too, we should follow the same principle.

The President. *Q*—Do you think it probable that either in the United States or in Switzerland there will ever be a reversion to the pre-war conditions?

A—It all depends upon the financial condition of the country I have written in my memorandum that it is doubtful whether they can adhere to that principle even now

Q—Have you not also referred us to a recent writer who points out what a large transference is taking place in all advanced countries from indirect to direct taxation?

A.—If the trend of public opinion is towards levying direct taxation, it will mean that it will go to the member States, that is to say, to the provinces and it is a well known fact that the expenses of the Local Governments are increasing more than those of the Federal Government because of the development that is going on there. In India, too, the demand for money comes from the provinces and not from the Federal Government

Q—The general tendency is that the taxation should be far more direct than indirect Does not that apply to the Federal as well as to the State taxation?

A.—In my opinion wherever there is a Federation and member States, we should adhere to the principle that federal finances should be recouped only by indirect taxation and the member States should have the power only over direct taxation. If abnormal conditions prevail and the Federation cannot confine itself to indirect taxation, then it may resort to direct taxation

Q—You are no doubt aware of the history of American finance when it was entirely dependent upon the Customs?

A.—Yes

Q—Is it not rather a difficult and awkward principle to leave the Government, which is responsible for Defence and so on, entirely dependent upon the most fluctuating items?

A.—I think the experience of Switzerland goes side by side with that of America. *In Switzerland the main item of revenue is customs* I think more than 50 per cent of their revenue is being derived from this head.

Dr Paranjpye *Q*—Would not the customs revenue be very greatly affected during the time of war?

A—In such cases all Governments have got to resort to loans and they have also to raise the import duties.

The President. *Q*—You are no doubt aware that in the stress of the war time the Swiss Government found it necessary to amend their constitution so far as the finances were concerned? (The witness was referred to Section 42 of the Swiss Constitution)

A.—The contributions were being paid to the Federal Government even before the war.

Q—But when the emergency arose that clause of the constitution broke down and they had to amend it and imposed a federal direct war tax?

A.—Under abnormal conditions you can, of course, change the constitution But there has been no organic change The contributions were being levied even then. Only more contributions were asked for during the war. So far as India is concerned, I think there are so many sources of indirect taxation which are open to the Indian Government that it need not for a long time go in for any direct taxation That is my point.

Q—Is it desirable that a Government like the Indian Government should have to balance its budget by sudden increases, for instance, in the customs tariff?

A—I do not think there ought to be heavy increases. It is preferable that new taxation should be resorted to There are several other sources, such as, tobacco tax, etc

Q—You are proposing that the tobacco tax should be a central tax?

A.—Yes. And there are some other taxes also of which I have given a summary on page 129 of my Memorandum

Q—May I take it that as regards the division, you would adhere solely to the principle of division of sources?

A.—I think it is better to follow one principle and stick to it. This is *especially desirable for India because in the near future abnormal conditions* are not likely to spring up which will be so excessive in their demand that the principle will break down. With my estate duties and tobacco tax and reform in land revenue, etc, which I propose to be transferred to the Central Government because they are indirect sources, the position of the Central Government will become so strong that for years to come it will not have any need to resort to direct taxation nor will its position be weakened in any way

Q—Can you tell us of any federation which has succeeded in conducting its finances on that principle?

A—I have already given two examples, namely Switzerland and the United States of America You can also now add the German Federation

Q—But have they succeeded in working the principle of simple division of sources? In Switzerland, as you have said, they levied contributions, but that system broke down!

A.—It broke down only because there is a great deal of State prejudice and enmity against the Central Government They do not want that the Central Government should have much encroachment upon the autonomy of the cantons Therefore only a few sources of revenue were given over to the Central Government and all the residual powers of taxation were kept by the cantons. Here in India the case is the reverse The residual powers are with the Central Government and the delegated powers are with the provinces, whilst in Switzerland the residual powers are with the cantons and the delegated powers are with the Federation

Q—What I was asking was whether you could give us any instance of a federation which has succeeded?

A—Take the case of the U S A No contributions are being paid by the States

Q—I think I am right in saying that American writers describe their system of taxation as about the worst system of taxation in the world

A—It has been in existence for the last 150 years or more In every taxation system there will be flaws There is nothing perfect in this world

Q—You are no doubt aware of Professor Seligman's criticisms

A—I have gone through his book and I have also seen his criticisms. Our case is a very simple one The case of the U S A is exactly the same as that of Switzerland because the powers with the States are residual and the Federation comes into existence, so to say, after the independent States

Q—My point was firstly how are you going to get rid of the difficulty of contributions and secondly how are you going to get an equitable division between the States on a basis simply of division of sources.

A.—We will give them both full latitude to develop their own sources. In the case of India there need not be any disparity between province and province. We can have uniform laws on various taxes. If my division of taxes is accepted, you will find that there will be sufficient margin for each and every province to develop its own resources The Central Government can also develop its own resources

Q—Now, we take your own instance. You propose to transfer land revenue to the Imperial Government and the income-tax to the provinces?

A.—Yes

Q.—How would you get an equitable distribution of land revenue? May I take it that the Imperial Government tax should be levied at the same rate in all the provinces?

A—That is our ideal But the land tax will depend upon the quality of the land and we will also have to take into consideration the varying climatic conditions It is difficult to say that the tax ought to be levied at the same rate all over India But attempts ought to be made to equalise it as far as is possible, making allowance for the varying factors.

Dr. Paranjpye. *Q*—Do you contemplate the administration of Imperial taxes by Imperial agency?

A—Yes.

Q—Do you contemplate also therefore the administration of land revenue through Imperial agency?

A—It would be better, but for the present I think the provinces may be asked to collect these taxes on behalf of the Imperial Government. They can be paid for doing this work In this way the expenses will be less.

Sir Percy Thompson *Q*—Do you call land revenue a direct or an indirect tax?

A—I call it an indirect tax because it is out of the rent. It does not fall on the person but it falls on the thing itself It has its effect upon the prices, and therefore it will have to be borne by the person consuming the article

Q—If it is paid by the land holder, then it should be called a personal tax. Why do you call it an indirect tax?

A—If you really believe in the theory which has been up to this time upheld that the State is the owner of the lands, then the so-called land owner is not the proprietor of the land He is only a manager In that case the tax should not be direct It is only a portion of the rent that we take from him for the agency that was given to him But I may here add that I am not an advocate of the theory that the State is the ultimate proprietor of all lands. I do not believe in this theory because it has not been sustained by ancient Hindu literature So far as I know the definition of the 'indirect tax' is that it ought to be capable of being shifted to some other person. Here, the land tax is shifted to the consumer

Q—Surely that is not the definition of an 'indirect tax'?

A—My information is that if the tax can be shifted to another person, it will be called an indirect tax If it remains where it is levied, it will be called a direct tax

The President *Q*—You regard the land revenue as no tax at all?

A.—I am taking my stand on the theory which has been propounded up to this time I have here made out the case that I do not believe in that theory. I have also added that land holders are the managers or the agents of the State to collect land revenue. Land revenue is, of course, an indirect tax but it is paid directly.

Q—One more question regarding the transfer of land revenue to Imperial Government. How would you divide the income tax? Take the outstanding case of Tata's works at Jamshedpur. The income is earned in Jamshedpur but the income tax is paid in Bombay.

A.—We should have regard more to the place of origin than to the place of residence

Q—How would you secure that division? There are many income-tax payers who derive their incomes from various provinces?

A.—Inter-provincial rules will have to be made In that case the place of origin will be more dominant than the place of residence.

Q.—Would it be practicable to frame such rules?

A.—I think so. Take, for instance, the inhabitants of Bombay who are doing business in, say, the Punjab and, similarly, there are the residents of the Punjab who are doing their business in the Presidency of Bombay There are plenty of such cases. Since these two provinces are part of the same country, we can easily come to a compromise by which origin alone should be the guiding rule in taxing incomes of the residents

Sir Percy Thompson *Q*.—May I just follow this discussion on the subject that origin alone should be the rule? You are no doubt aware that the League of Nations appointed a Committee to go into that question and Prof. Seligman and others came to the conclusion that residence should be the test with the single exception of income derived from land

A.—I think you will find in the third or the fourth canon of their report that it is a matter for decision as to which place is more important—the place of origin or the place of residence I would pursue the example of Tata works which has been taken If their works are situated in the Madras Presidency and the whole income is having its origin in Madras, then the Madras Government should have the full share of that income and the Bombay Government should not claim any share for the simple reason that the Tatas reside in Bombay. In my opinion the place of residence should not have so much claim as the place of origin

Q.—Take a practical instance You know that Southern Ireland has now got its own Government and Northern Ireland is still connected with the U. K The income-tax is collected for England and Northern Ireland, but Northern Ireland gets its share It has been recognised that the amount collected in Northern Ireland is not the amount which Northern Ireland should have with the result that the National Exchequer has decided to appoint a committee to find out what proportion of the revenue should be allocated to Northern Ireland and have found it an extremely difficult question to solve and it has not been solved so far You seem to think that in the provinces of this country it will be very easily solved?

A.—I should not place Northern Ireland in the same position as the provinces of this country

Q.—Why?

A.—It is quite a plain thing Northern Ireland has been recognised to be a part of Ireland and sooner or later it may separate and connect itself with the Free State To me it seems that in India origin should have more importance than residence alone

Q.—Then we may take it that you will find it possible to make a satisfactory division between the provinces in India?

A.—I think so

Q.—What about Excise? Would you not have to transfer it?

A.—Yes It is an indirect tax.

Q.—And you would also transfer Stamps?

A.—No, because it is more direct than indirect I will call Stamps direct taxation

Q.—Then we come to your income-tax proper You have suggested certain changes The first one is the exemption of agricultural income Are not there difficulties in the way of that? Is it not alleged that there is a pledge given that no further burden should be put upon the income of the agriculturist?

A.—I think that the pledge theory should be abolished as soon as possible

Q.—You think that the present pledge ought to be broken?

A.—Yes We make laws and unmake them every day I do not think any State has got any pledges to be made to the people Even the organic laws are changed.

Q.—Your second objection is to the exemption of houses

A.—I mean the income from houses For instance, there are landlords who have got big mansions. If they are rented, they are not subject to income-tax. I maintain that since they have got property in houses in villages, it is possible that they may get incomes from them If this income does not come within the income-tax limit, then it should not be taxed But if it does come within the income tax limit, then it ought to be taxed I do not lay much stress upon the houses

Q—Then you object to the exemption of charities? In most countries they are exempted They are exempted in England as well as in America?

A—In France they are not 5 per cent is levied by the State on the income of charitable institutions I have given three quotations in my Memorandum from ancient Indian books which show that religious societies were not exempted. Of course, the recent literature has developed the theory that charitable institutions should have free lands and there are so many inam lands given even from the time of the Gupta Kings.

Dr Hyder *Q*—I want you to give me the authority.

A.—Dharmasutras.

Q—In Manu it is said—I am quoting from Manu—"A King must not levy taxes upon spiritual guides and those learned in the Vedas and such people must be exempted from taxes and fines" How do you reconcile these two statements?

A—In Manu we have got so many things which are of later origin You have there contradictions in many places For instance, according to one sloka meat eating is allowed, while according to another it is reprehensible Therefore, we cannot always rely upon these slokas

Q—Don't you think that the Brahmins belonged to a privileged class in ancient India? They paid no taxes whatever?

A.—My whole point is no class should be exempt from taxation Of course. I admit that we have got so many *Dana patras* in which it is stated that ancient Kings gave away lands to charitable institutions which were exempt from taxation That was the ancient practice, but I do not see why we should not change that practice in these democratic days All that I say is that income from land not exceeding Rs 500 or a little over that figure may be exempted, but an income over Rs 600 should not be exempted at all

Q—How will you take the tax from ascetics?

A.—The Dharmasutras say that one-fifth of the portion of the income should be taken from ascetics

Sir Percy Thompson. *Q*—The third category of exemption which you object to includes life insurance. I am rather surprised that you should object to that, because you yourself make a point later on that there should be a differentiation between unearned and earned income. Surely life insurance is a general form of saving which is generally indulged in by people who depend upon precarious incomes

A.—My object in putting forward this suggestion is this, there should be laid down a certain minimum of income in which this exemption of insurance may be included, but all big incomes should not be exempted I don't mean to suggest that there should be no exemptions at all. I do recognise the necessity of giving some exemptions, but there should be a minimum, and when we reach the luxury limit, no exemptions should be allowed I want the English system to be followed here

Q—With regard to taxing capital from commutations of pensions, surely you cannot tax it because you obviously describe it as capital and you tax the man once, and when presumably that capital is invested you will also tax the income derived from that capital, and so you will be taxing him twice?

A—Is there any guarantee that the capital from commutation will not be invested in such a way as not to escape income tax? In India it is very difficult to take a grasp of such incomes, generally people are their own money-lenders and therefore they do not come within the grip of the income tax gatherers.

The President. *Q*—And if the income itself from commutation were below the limit, would you nevertheless tax the commutation?

A.—If the income is below the limit, I don't see why we should tax it

Sir Percy Thompson Q.—I come to your sixth item. You want to tax English companies purchasing tea in India How are you going to tax them? Is it for making a profit on the purchase of tea in India?

A.—If profits are made on things which are bought here, then on the principle of Seligman, we should tax the companies, because though these companies are registered in England, they are residing here and we ought to tax them, as residence is predominant

The President Q.—Do you mean companies trading in India or companies purchasing tea in India?

A.—Companies trading in India

Q.—You do tax the English companies trading in India, they are subject to the ordinary rules of income-tax?

A.—So far as tea companies are concerned, I do not know.

Q.—And so far as rubber, coffee and shipping companies are concerned?

A.—Shipping companies have to pay a tax only since the last 2 or 3 years

Q.—But tea companies have always been taxed?

A.—Not on their income; they are only paying a land revenue so far as I am aware I am not sure about it

Q.—I think they are paying land revenue, and then their profits are divided into two parts, agricultural profits and commercial profits, and commercial profits are taxed in the ordinary way

A.—So far as I remember, I think only the agricultural tax is being paid by them, and not the commercial tax

Sir Percy Thompson Q.—Now, with regard to sterling debt that is a matter of contract If you issue a loan in England and agree to pay 5 per cent free of income-tax, surely you cannot ask him to pay a tax on the interest in India?

A.—Have not those people to pay a tax there? They have to pay a tax, and I say that that should be paid to India

Q.—You have agreed to pay 5 per cent free of all taxes That is the basis of the loan

A.—If such an agreement is made then there is no question at all It is of course a price paid in the shape of interest but if it is not a price, and if the market rate is 5 per cent and you have not to pay anything more to draw the loan, that is this concession free of income tax, then it should be paid to the Indian exchequer

Q.—It is a question of contract?

A.—Is it not possible in that case that we should not give the contract which favours the English tax-payer?

Q.—You are aware that during the war every country that had to borrow had to do it on the basis of being free of taxes?

A.—They wanted more money and therefore some concessions had to be given to investors Even the Turkish Government did not exempt the English creditors from their own taxation

Q.—May I refer you to the conclusions arrived at by Dr Seligman's Committee on this point? They say that if a Government imposes an income tax on non-residents in spite of its own borrowings, that income tax is borne by the borrowing country, because if they do not grant it it means a corresponding increase in the market rate of interest they have to pay

A.—I beg to point out one thing India is standing upon the same status as the Dominions, and therefore the same concessions which are granted to the Dominions should be given and taken as between England and India

Q.—Suppose I have got millions in India which I invest in consols in England. I am subject to a tax on the interest in England Now that India has a loan, if I transfer my millions from the English consols into the Indian loan, do you suggest that the British Government will not get a tax on the investment?

A.—You are getting interest on those securities from the Indian exchequer.

Q.—The British Government always gets a tax on income from loans raised in the Dominions?

A.—Only the residuary; that is to say, if the tax is more than is levied in the Dominions.

Dr. Hyder. *Q.*—Don't you think as an economist that if investments here were subjected to a tax, the profitableness of such investments would be reduced, and therefore there would not be capital forthcoming for such investment?

A.—There will be more capital forthcoming There is a theory that there is much wealth hoarded in the country. How far it is true we are not going to discuss at the moment But there is no doubt that greater stimulus will be given to Indian capital to come out

Dr Paranjpye *Q.*—Is there any Indian capital at present which wants to be invested in Government securities and which does not come out?

A.—We know that whenever Government wants a loan, capital is forthcoming with great rapidity and with a readiness which was unexpected

Q.—Government did not get what they contemplated to get?

A.—We have to look also to the slump in the market during the 1½ or 2 years

The President *Q.*—At the close of the table you give you mention the exemptions under 3, 4, 5, 6, and 7, you say the whole system is foreign and there is, you say, a sting of injustice in not placing India on the basis of Dominion Governments. What are the items that remain in which you think that India is not on the same basis as the Dominions?

A.—So far as the pensions are concerned, the sums that India is paying to the India Office are all exempt I am speaking of the salaries and pensions which English officials draw while on leave in England They are free from payment of tax when they remain in England

Dr Hyder *Q.*—The English income-tax authorities get hold of them They should not be taxed twice

A.—Therefore I say that there should be no injustice to an Englishman, and only one taxation should be imposed, and that of course should be in India.

Q.—With the exception of the case of pensions, where else does the sting of injustice come in?

A.—I think the question of Debt was also there If you say that the Dominions have got exemption in that, then of course I have no point to make out I am talking of pre war days The days of war period were of course abnormal times, and therefore several concessions were given Now the Indian Sterling Debt amounts to so many millions of pounds It has all along been free from tax The interest is being paid by India, and on that interest no income tax is being paid by the English security holders What the Indian economist wants is that these security holders should be made liable to income-tax in India

Q.—You do not accept the conclusions of the Committee on that subject to which Sir Percy Thompson has referred you?

A.—I have made a difference there I say that India should be on the basis of the Dominion Governments

Q.—But the Dominion Governments do issue income-tax free loans in England?

A.—During the war or before the war?

Q.—Before the war

A.—Well, if that is the case, then India is on the same footing in that respect. But we do not know, I am not still sure if that is the case.

Q.—Is there anything else that remains?

A.—Yes, the 3rd and 4th items, exemptions in the case of military officers' salaries, no income-tax is being paid on these

Q.—Is it paid in the Colonies?

A.—The Colonies have not got English soldiers there to the same extent as we have in India More than half the Budget is meant for the military people, and under such circumstances, I don't think it can be said that India stands on the same footing as the Colonies.

Q.—Now the 4th is regarding the salaries of Government servants on leave in England If an official goes on leave for 4 or 10 months, he does not pay any income-tax to the Indian Government?

A.—He ought to be taxed.

Q.—He pays a tax to the Home Government?

A.—I don't think so.

Dr. Paranjpye. Q.—Do you know that people on leave can always escape taxation by dividing their leave in two different countries They can live for 5 months in England and for 4 months in France, and they can escape payment of a tax?

A.—Yes, I know that, and so I say that we must tax them here

The President. Q.—Do the officials on leave pay a tax in the Colonies when they spend their leave out of the Colonies?

A.—You have got a very small percentage of Englishmen employed there. Here, of course, you have a large body of Englishmen and a large sum of money goes out and escapes taxation.

Sir Percy Thompson. Q.—I believe you suggest that foreign corporations should be taxed on a different basis, that is to say, they should pay the ordinary income-tax and in addition a license tax to the municipality?

A.—Yes, in America this thing is recognised The members of one State there are recognised as foreigners in other States, and therefore if any Corporation is started in Louisiana by a man from New York he will have to pay a larger tax, *plus* a license tax. So why can't we do the same here?—If you will kindly refer to the Constitution of Louisiana you will see that in Louisiana as well as in other States they recognise the inhabitants, people of other States, as foreigners in their own territories when they establish a Corporation or a firm

The President Q.—I think what the system amounts to is this, that the tax on the income of a Corporation is general

A.—What I am saying is that the Corporation has to pay more to the State as well as to the municipality.

Q.—I am going back to your proposals It is really a matter of distribution of revenue. You have a general income-tax, you have a State business tax, and you may have a property tax, income-tax for its residents, business tax follows the place of business, and property tax follows the location of the property, it is not taxing a foreigner, it is imposing a tax for business done in a particular jurisdiction

A.—I say that the provinces ought to have a right to get more tax from the Corporations

Sir Percy Thompson Q.—Suppose a native of Louisiana starts a grocery business there and an Englishman also starts a similar business there Would the Government there charge the Englishman on a different basis to what they would charge the native of Louisiana?

A.—Yes, they will not charge a license tax to the native of Louisiana, whereas the Englishman will have to pay a license tax.

The President Q.—Is the discrimination made on account of race?

A.—It is not a racial discrimination Any non-Indian whether he is an Armenian or Arabian or Persian will be in the same position as an Englishman or a Frenchman or a Japanese For instance, the Japanese are coming here and making so much profit Should they not pay more duty than the Indians? The Japanese are coming in now by hundreds and making a lot of profit in this country, and they must be made to pay more

Dr. Hyder. Q.—Will not the Japanese people retaliate?

A.—It is not a question of retaliation, but we should make a difference between nationals and foreigners

Q.—That will involve this country in a number of disputes with other countries?

A.—I don't think so, because the other countries are doing the same.

Sir Percy Thompson Q—You say that you ought to charge a higher rate of tax on employees in Government service than in the case of other employees How are you going to differentiate between the different classes of employees. There is of course no doubt that there is great security of tenure for Government employees but the amount of security must vary right down For instance, how are you going to include employees of a municipality in your category?

A—There cannot be much difficulty in making the gradation Of course, it will be to a certain extent arbitrary, but no hard and fast rules can be laid down Anyway, it will not be very difficult to make the gradation.

Dr Paranjpye. Q—Don't you think that theoretically one whose security of tenure is less is probably paid a higher rate of pay?

A—I don't think so Take the educational institutions The teachers in private institutions do not get more than what their compeers get in Government institutions A graduate, for instance, is paid Rs. 50 round about Poona, while in Government service he is started on Rs 70 I think people of precarious incomes ought to be charged a smaller tax, and some differentiation ought to be made in the matter of income tax between Government employees and those employed in private service, because we know that service here in private companies or educational institutions is very precarious

Sir Percy Thompson Q—Would that principle apply to trade as well? Take the case of a man who is engaged in grocery business and one who is engaged in gold mining, would you suggest that the man who is engaged in gold mining should be taxed less than the man engaged in grocery business because it is of a precarious nature?

A.—In that way every business is precarious. There is more profit in gold mining That is to say, more profit, more tax

Dr Paranjpye Q—Have you got any precedent for this proposition?

A—No, not for this principle But from my experience in England I can say that private companies are so well established, that there is not that precariousness in employment which is the case here Here an employee does not know when the company will go into liquidation and when he will be asked to go away It is the same case with institutions. It is a condition peculiar to India, and therefore I have differentiated

Sir Percy Thompson Q.—With regard to the Local Boards, you want two-thirds to be elected by the tax-payers and one third by the Government Do you know any country in the world where the income-tax is administered by Local Boards?

A—Germany; Prussia before the war I have really borrowed it from the old German Constitution I think it is given in Percy's Local Government.

Q—Do you mean to say that in Prussia income tax was administered by Local Boards?

A.—By Taxation Boards, and not by Local Boards The Boards appointed to administer the income tax were composed of one-third Government servants and two thirds of the peoples' representatives. That system appeared to me very commendable, and therefore I adopted it here. If the panchayat system is working there, I am sure that system is bound to succeed equally well here You have got the Sialkot system as well as the panchayat system in operation here The Sialkot system is this. The Government of the district fixes a sum to be levied from a certain district and then it is divided by the income-tax payers amongst themselves. This system helps Boards to find out exactly how much to assess In France also probably you have got a similar system.

Q—Income tax is administered by officials nominated by the State?

A.—Here the only difference is that the peoples' representatives are also allowed to have a voice

Q—What I do suggest is that there is no law in India for that system, whereas you have a law for it in France.

A—I am referring to the practice of assessing the income tax. It is working satisfactorily in the Punjab

The President. Q—Here is the Report of the Louisiana Commission Will you show us the passage referring to the description of taxation there? (See note on page 165)

A.—What objection do you raise against the system?

Sir Percy Thompson. Q—I take this objection, that it will probably lead to a lot of bribery and corruption Besides that, the tax-payers would object to a considerable local body knowing what they pay by way of income tax

A—So many persons escape the income tax now, and that will not be possible under the system I propose.

Q—Do you really think that you can stop evasion by publicity?

A.—Those who are intimately connected with the people and those who know something of the peoples' income, they will be better assessors than those who are not in touch with the people The tahsildar or mamlatdar of to day assesses the tax on mere guess work, and I know, as perhaps most of you know, that these people are amenable to corruption and so some of the unscrupulous merchants and traders can escape the income-tax

Dr. Paranjpye. Q—Do you think that this work of assessment will be done by the Local Boards when they have got no interest in the income obtained from that taxation? It may be possible to carry out the system when the income obtained by that system is used for local purposes, whereas if the amount of the income-tax is to go to the Central or the Local Government do you think that these Local Boards will do the work properly?

A—The question is, who should be the assessor, the Government alone or should the representatives of the people be also there That is the point at issue At the present time it is the Government servants who assess, and I submit that the present mode of assessment is open to several objections If the present system could be popularised or democratised by bringing in peoples' representatives, the people will willingly pay more and they will not be able to escape taxation, because the assessors who will be in actual touch with the people will know what the incomes of these people are

Dr. Hyder Q—Surely one principal objection is this, that the man who is assessed would not like his neighbours to know how much he has been assessed or how much he would pay

A.—Of course, he may not like that, but the question is whether the State should leave free a large share of the income-tax which they can get Everywhere it is the intangible property that escapes the grasp of Government, and in India, I think, it escapes more than it does in other countries

Q—You are aware that the assessors will themselves be income-tax payers?

A—Yes, but I have made a rule here that there should be 'no representation without taxation'. By the method I propose a lot of good will accrue to the State, and I also suggest the institution of a Revenue Tribunal for appeal against the decision of the assessors

The President. Q—Throughout the descriptions in the Articles of the Constitution of Louisiana, there is one sentence which occurs constantly, *viz*, 'taxation shall be equal and uniform throughout the territorial limits of the authority levying the tax"

A—That only means that there will be no variations in localities It does not refer to my point I will send the Article of the Constitution which deals with this taxation later on

Sir Percy Thompson. Q—You might also just look up the Prussian system again From what I see here, the assessment is made by an official of the Government It is perfectly true that the returns are scrutinised by local boards which no doubt take a part in offering advice to the official but the assessment is actually made by the Government official

A.—What about the tribunal for appeals?

Q—It is also subject to a right of appeal to courts on a point of law

A.—Where the income-tax is more or less, there is an appeal to a separate court, not an ordinary court but a court which may be called a revenue court I will refer to the book again.*

Q—I was only making the point that in all these countries, like France, . . .

A.—France of course is most centralised. I would not call it a democratic Government

Q—They have all been trying to get income-tax locally administered and they have all failed, and the only reason why in England we have been able to do it is that the income-tax has been in existence for a long time, practically back from the feudal days; it started at a very low rate. I think you will find extraordinary difficulty in commencing it here now and having it assessed by some local body. I do not think you will find local bodies which will command confidence at all

A.—I should certainly recommend the Sialkot system and the panchayat system which are in vogue If they are working with success, I do not see why they should not be adopted Reports may be sent for from them.

Q.—There is a very important difference If you tell a district that it has got to provide Rs 1,00,000 they will soon settle among themselves what shares they have got to bear That is a very different thing to law which says that you have got to assess on the man's income and the man is trying all the time to keep it down If you have got a fixed quota from a district and if a man is trying to get himself down, there will be a lot of other people trying to get him up because he pays little

A—The arbitrary method of taxation—a quota in the whole district and then divide it as they are doing it now and assessing through the panchayat system—if that is in any way successful, then you will find that this is a better method than the Sialkot system and the panchayat system That is the system pointed out by me †

Dr Paranjpye *Q*—But the quota there is fixed by an outsider.

A—Not in the case of the panchayat system In the Sialkot system it is and therefore it is open to objection I would request the Committee to see that.

Q—Where is that in operation?

A—In Sialkot in the Punjab I will send the book and I will refer you to this. I do not say it is law Therefore I want to legalise it

The President *Q*—Witnesses who have come from the Punjab have described that system to us as the method of levying the profession tax

A—I will see to it.

Q—Then you say that there is much laxity in collecting the tax by employers of big factories such as jute mills and private institutions What is your authority for that?

A.—Dr S M Pagar, M A., Ph D, in his book called "The Indian Income-Tax". Dr. Pagar was for some time Director of Commerce, Industry and Statistics in the Baroda State. His book deals with income-tax in British India.

Q—You speak of the liquor monopoly of the Indian Government.

A.—Of course, the wording is wrongly used in this case

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*I have not now got the book in which the detailed composition and working of the Income-Tax Boards were given. However Leacock has thus referred to it —

> "The persons liable to the income-tax are divided into classes within which all pay the same. The assessment is made by a special board in each circle or country, partly appointed by the local authorities but in the majority elected by the persons liable to tax" (P. 306 of Elements of Political Science)

†A clear description of assessment by the panchayat and Sialkot systems is given in Dr. Pagar's book, pages 148 154.

Dr. Paranjpye. *Q*—Before we pass on, as regards discrimination between incomes earned, and income from investments, how would you treat income from savings? The man saves from his earned income and invests it How would you treat it?

A.—Under the present law, we are making a distinction really between earned incomes and investment income, because we are levying 5 pice there and less than 5 pice on other incomes.

Q—But a man can get rebate on Government securities.

A.—In that way it is possible, but here the whole investment income is to be considered, and not only Government securities.

Q.—Supposing a man, instead of spending all that he earns, saves and invests it You are going to charge an income-tax for the interest on investment. Do you think it is fair?

A—This is in excess of what is necessary for his subsistence. It is a luxury income, so to say and it ought to be taxed This principle has been recognised, I think, in our income-tax laws also as well as in England

The President. *Q*—Then you say that Great Britain has prohibited the domestic cultivation of tobacco Has it prohibited it at all?

A.—I said it on the authority of Wells. Another book fell into my hands and I find that he is wrong It was written in the latter book that cultivation was not prohibited, but a heavy excise on home produced tobacco is being levied.

Q—You propose to levy an excise duty At how many annas?

A—I have suggested only 2 annas per seer

Q—Can you suggest how we should levy that?

A—I have suggested that it should be levied at the source, that is, when the crop is ripe and when it is to be marketed

Q—At what stage of the curing?

A—Uncured, as soon as it leaves the field. It will not be called manufactured tobacco at that time The patwari will do the work He knows how much of the village is under tobacco cultivation and what is the estimate of the crop, and what will be the yield There is no necessity of an officer in every area

Q—It would be a presumptive tax with reference to the area?

A—If the actual yield is not available, then it may be, but I think it is possible to have the actual yield because the village patwari is the man who is directly connected with the village and he can have a correct estimate with the help of the cultivators

Q—You realise that the yield per acre varies by 100 per cent?

A—I therefore take the actual yield Just as the landlords divide with their tenants, similarly the Government will be levying its tax on the actual yield of tobacco

Q—In most of the districts the area under cultivation is something enormous?

A—Yes In that case we can employ supervisors who will go from village to village and see that the tax is being properly collected You will be getting some 6 crores of rupees, naturally some expenditure must be incurred

Q—When a man has paid the excise duty to the patwari, he is free?

A—Yes.

Q.—In the case of large concerns cultivating hundreds of acres, would you leave it solely in the hands of the patwari?

A.—These are matters of detail The Government with its long experience can devise methods for assessing If excise is being levied on manufactured as well as raw tobacco in so many other countries, as I have quoted, will there be any difficulty here where there is a cadastral survey of each and every plot in India?

Q—Are you acquainted with the systems in the various other countries?

A.—Some countries have got monopolies, others are levying only on manufactured tobacco, others are levying on imports, and others, just as Italy for instance do not allow any tobacco, manufactured or raw, to be imported into the country. France has got a monopoly and Switzerland intends to have. For these countries it is very easy.

Q.—I put it to you that France does import a very large quantity of tobacco—more than it grows.

A.—Yes, but there the monopoly is held by the Government.

Q.—Take any country you like, France or America or Italy.

A.—Take France. They are manufacturing tobacco and also raising tobacco.

Q.—The French system involves a license to cultivate.

A.—Yes.

Q.—There is a prescription that no man shall be allowed to cultivate unless he is prepared to cultivate 100 hectare. The cultivation is supervised, the number of plants in the field is counted and count is taken of the whole plant as soon as the crop is cut. It is thus subjected to supervision throughout the whole process of curing and after curing it is purchased by a Committee and then passed into the Government warehouses. How would you apply all that here?

A.—Government has got a monopoly there. We are only going to raise the tax on the field itself. We have nothing to do with how much is being carried into the market or the warehouse. Therefore we need not be counting the plants, etc. They have to be very careful in France, because they are imposing a duty of 10, or even 30 or 50 francs per kilo.

Q.—It comes to this that for a revenue which would run into crores of rupees, we should be dependent solely on the patwari?

A.—We shall have supervisors. You can have one supervisor for each taluka or for a union of villages. If they cultivate more tobacco, then you can have more staff.

Q.—If the patwari is to collect the duty when the tobacco leaves the field there is nothing left to supervise.

A.—He will be seeing whether the yield has been properly estimated or not. The patwari may be bribed. His function would be to go from village to village and find out whether the land under cultivation has been rightly measured and registered and whether the first estimate of the yield is correct or not. Of course there will be the actual yield. In that way there will be a great check upon the patwari's operations.

Q.—Supposing it is underestimated, have you any experience of crops estimation?

A.—That is why I say it is the business of the superintendent or the supervisor to see whether the estimates are correctly made or not.

Q.—Is the supervisor to estimate every field personally?

A.—He will only pick out a plot or two within the village and see whether the estimates for them are right or not. It is only a sample.

Q.—Have you any confidence in the estimates of crop yields that we already have in existence?

A.—You need not be so very careful now because you don't lose any revenue. You will be very careful when you will lose revenue.

Q.—You are a member of the Indian Economic Association?

A.—Yes.

Q.—You may perhaps remember a paper that was read on the subject of crop estimates and the extraordinary difficulty of getting anything at all correct of which the author of the paper gave an instance in which a Professor of Agriculture had undertaken to make an estimate within 20 per cent. of a field and he was unable to make an estimate. His estimate of his own farm was 30 per cent out.

A.—There are these difficulties, but in some way or other you find crop estimates and valuation going on. We need experts for these.

Dr. Paranjpye. *Q*.—Would you not rather levy the tax on the acreage?

A.—We can do that, but the difficulty is that tobacco yield varies from place to place

Q.—Have a different tax per acre from place to place

A.—That also can be done, but it comes to the same thing, because you must have the yield per acre first.

Q.—That may be settled once for all by crop experiments actually conducted.

A.—It varies from 500 to 2,000

The President. Q.—May I suggest to you that it varies from 100 to 3,200?

A.—Yes, it may vary.

Q.—You say that it is quite easy for Government to do all these things. They have been studying it for years They have been faced with the impossibility of levying such a tax.

A.—There are difficulties in levying every tax You cannot even prevent the coming of counterfeit coins So many persons are doing it

Q.—You quote America The American system is that the whole crop is to be brought into the curing station and the manufacturing place, and no manufactured tobacco can be sold except under a stamp

A.—All these require a lot of officers to look after, and I do not want that our system should be complicated India wants a very simple system Either it can be on the acreage or on the yield and I prefer the yield You cannot have the tax on acreage unless you have the yield The yield will be there in every case

Q.—In the permanently settled areas, which grow an enormous proportion of tobacco, there are no patwaris Who is to levy the tax there?

A.—You will have to appoint them, because you yourself admit that tobacco growing is more extensively resorted to in these areas

Q.—You should also have a cadastral survey, supervisors and patwaris, etc Do you think 2 As will cover the cost of all these?

A.—I do not think 6 crores will be spent on that

Dr. Paranjpye Q.—How do you estimate a yield of 10 thousand million lbs?

A.—The acreage is given Multiply it by 800 which is the average yield Government has not stated anywhere that 800 is the average yield I took the yield as given by Mr K T Shah in his latest book, "Wealth and Taxation" I tried many Government reports to find out what the actual yield of tobacco per acre is but Government has not solved that difficulty

The President Q.—May I suggest that it is so variable that it is impossible to give it?

A.—I do not think it is so difficult to give it Tobacco growing is centred in certain areas

Q.—In how many districts would you say that tobacco is grown?

A.—There is an enormous number of districts and therefore you will find that it is not concentrated

Q.—May I ask you to glance through that statement (giving a statement)

A.—Here also there is no average given I had to seek the information elsewhere than in Government reports Happily I found that Shah had given 800 after collecting the information from various sources

Dr Paranjpye Q.—How would you prevent the smuggling of tobacco from the Indian States?

A.—Just as we are controlling salt

Q.—The Indian States hardly ever produce salt.

A.—You have salt in Rajputana

The President. Q.—We have a treaty under which we have the control of salt sources

A.—We should ask the States to levy the same tax in their own land

To Dr. Hyder.—They should levy the tax and keep their money for themselves. We do not want to pocket the money. I suggest this, otherwise there is no Imperial system of taxation. These States must come in.

Q.—Would your rate of duty be the same on unmanufactured tobacco and on manufactured tobacco? You would have no further excise on manufactured tobacco?

A.—I do not propose it if you tax it at the source and if it is sufficient. If it is not sufficient, go on adding Now it is only a proposal of 2 As. If 2 As. is not sufficient, have 3 As.

Q.—Would it not be hard on the poor man?

Dr. Paranjpye Q.—You don't want him to smoke at all?

A.—I do not say that he should not smoke at all It is only a question how far you are going to restrict this habit by means of taxation. 15s. per pound has to be paid by an Englishman as import duty.

The President. *Q*.—You say that your excise should countervail the import duty.

A.—Of course that word "countervail" would have the meaning that it should be equal If that is the meaning I should not use that word

Q.—You are not a complete free trader?

A.—I am not a free trader at all

Q.—Then, as regards Powder monopoly which, I take it includes explosives. Is there a sole monopoly?

A.—There is not Just as you license the sale of liquor, similarly you can license the sale of explosives No one will be able to sell explosives except the Government

Q.—All explosives should be manufactured or imported by Government?

A.—Yes, and they should be doled out to the dealers

Q.—You propose a property tax You are no doubt familiar with the criticism of the American property tax?

A.—I have gone through Seligman and others

Q.—You say that property in many towns and cities has increased fifteen fold in value during the last 50 years

A.—In several towns

Q.—In many towns?

A.—Yes. In towns in which the population is growing and in which business is centred, naturally the land has gone up in value Take the case of Lahore. You will find the value of property has gone up very high

Q.—There has been an increase in the urban population?

A.—In towns which are centres of commerce, which are capitals, so to say, they have been increasing, whereas the smaller towns are not growing That will be apparent from my book on "The Industrial Decline of India"

Q.—Which way is the tendency greater? Is it towards increase or decrease?

A.—Up to 1911 up to which my book treats it appears that the tendency was for the smaller towns to go down so that the total urban population was losing

Q.—The conclusion that can be expected from your book is that the property has almost lost its value

A.—In towns in which the population has decreased Many of the bigger towns have added to their population, but the smaller towns have gone out of existence or have got decreased population and therefore the total urban population is less Towns with a population of 5 000 and over, between 5 000 and 10 000, from 10,000 to 15 000, some of these towns have lost some of their population so that in total the urbanisation is less But many of the towns with a population of above 50 000 have gained in population. Even in the 50 000 scale you will find that a few towns have lost in population. I have collected all the figures from Government reports.

Dr. Hyder. *Q*.—I have just glanced through it and I find that I cannot accept many of the statements contained in your book.

A.—It has nothing to do with taxation.

Q.—It has a lot to do with it. The central thesis of your book is that this country is becoming rural and you draw the inference that the country is becoming poorer. That is Government cannot go on levying more and more—it would be unjust for them to do so—if the country is becoming poorer. That is how I connect it.

A.—The whole of it treats of the rural population. I am only dealing with native industries which are manual crafts. These have decreased in number, and the rural population has increased, because, these people having lost their employment and not having been able to be taken up by the factories and firms, have to depend on the land alone. They have therefore migrated to land and become labourers.

Q.—Surely you will admit that India has to-day a larger industrial population in the modern sense than it had in the year 1870 or 1890 or 1900.

A.—It is not according to your statistics. It is not my statistics that I am producing. We have to see how many people were counted as employed in industries in 1871, 1881, 1891 and 1901. Show me that the same number is there. You will find that the same number is not there. I quote chapter and verse how many trades have gone out and lost their men and then I show how many people more are on the fields. Where have they come from? They have come only from these various industries. I make a distinction here between machinery industry and manual industry. The whole of my book treats of manual industry and labour. In machinery industry the population has increased but you don't pay attention to the loss of population in manual industry. There is a constant flux from the towns or from the smaller industries to the rural areas because they have got no other thing to fall back upon but agriculture.

Q.—You maintain in your book that there is a flux of population from the towns into the country. That is your central thesis.

A.—And from the manual industries.

Q.—If I may refer you to the statistics, you will find here that excepting *a few towns the population of every town has increased.*

A.—I am dealing in my book only up to 1911, because that was the latest census available when the book was published. I have just been saying that the large towns have added to their population and therefore the property in those large towns has gone on increasing in value while the towns with a population below 50,000 have been losing their population and it is in those towns that manual industries are to be found. You have to see to the urban population as a whole.

Q.—May I put it to you this way, that the towns of 50,000 have grown into towns of 100,000 and therefore the number of towns with a population of 50,000 is becoming smaller because they have grown to the next bigger grade.

A.—They have not grown at the same rate as the de-population of the smaller towns. You disprove any one of the figures in my book.

The President. *Q*.—On page 31 of this book you give the number pushed out of the higher services as 12,818,684. On page 23 you say that there are only 75 towns having a population of 50,000 and more and that their aggregate population is 8,656,938. According to you there were 50 per cent. more people than lived in the towns who were *pushed out of them*. The higher *services are* urban services, I take it.

A.—Not necessarily. I quote the figures of the two census of 1891 and 1901. There you will find that Government services and professions lost about 2,000,000, domestic occupations lost 500,000, commerce lost 900,000, industrial occupations lost 2,000,000 and labourers lost 7½ millions. Sum up the whole and you will find that it comes to 12 millions. These have been called higher services. It is not in urban population only. Much of it would be. The census report gives these figures.

Q.—The fact that strikes me as extraordinary is that with this enormous reduction in the urban population the value of property in the towns should increase fifteen fold.

A.—I was talking only of big towns. Take Lahore or Allahabad or Lucknow or Bombay. I think Dr. Paranjpye with his experience of Poona might be able to tell something about this. Take Madras or Calcutta. Is there any

doubt that the property has risen in value? It may not be fifteen fold. It may be ten fold. Bombay has been increasing in population so much; naturally there is increase in land values also In Bombay we have not ruralisation to that extent

Dr Hyder. Q—Is there any other town?

A.—I have got the percentage decrease Between 1872 and 1911 the following are the decreases In towns with a population of 1 lakh and over, 3 58; between 50,000 and 1 lakh, 8.61; between 20 000 and 50,000, 9.81; between 10,000 and 20,000 8; between 5,000 and 10,000, 10 98; under 5,000—4 15 So, all the towns from 5,000 to 1 lakh and over have got so much of decrease This is again from Government statistics

The President Q—You proceed to explain that increase away. The table which you read to us is a table of the increase and not decrease?

A—There is a decrease in the first column of that table When we come to the urban population, it is 5,000 and over, but the towns of 50,000 and over would be included in the urban population But a separate category has been made on the basis of English statistics; because in England also they make a distinction between 50,000 and 5,000 And that has been followed here

Q.—Perhaps you could give us an explanation of it in writing I find it rather difficult to follow

Dr Hyder Q—You say on page 24 of your book that " in a country devoted to mere agriculture, dullness of mind, awkwardness of body, obstinate adherence to old notions, customs, methods and processes, want of culture, of prosperity, and of liberty prevail" If that is so, how do you explain the energy and enterprise of countries like the United States of America and Denmark? Denmark is a purely agricultural country

A.—Denmark cannot be called a purely agricultural country. Of course, they produce a lot of butter and dairy produce I will explain the case of America You will find there that less rural population is engaged now in producing more things in agriculture That is to say the agricultural yield is more every year while the population engaged in agriculture is getting less and less If you take the percentage of the people employed in agriculture, you will find that with a less percentage of the population a far greater production is being taken out of the land only because they are employing better methods of cultivation

Q—I wonder if you will accept the explanation given by Marshall (Reads a passage from Marshall's book) The whole point is this, that the population of manufacturing countries like England has not decreased

A—I should interpret it in this way that it has not decreased to the same extent as it appears from the statistics, but it has actually decreased For instance, we find now only 21 per cent There may be a difference of 2 or 3 per cent, but it does not mean that the population has not decreased Instead of say 21 per cent of the population so called in the statistics of agriculture, you may say really it is 25 or 30 per cent, but you cannot say that there has been no decrease Dr Marshall has not given the statistics Only 21 per cent of the population in England is engaged in agriculture, and between 75 and 79 per cent of the population is engaged in non agricultural pursuits and other employments, whereas there was a time when a larger percentage of the population was engaged in agriculture.

Q—I ask you to explain how this dullness of mind, awkwardness of body and other things prevail

A—The rural areas are truly speaking more conservative and less educated

Q—But how is it that the case is otherwise in Denmark which is also a purely agricultural country?

A—There the people are more educated

Q—So it is not agriculture that produces dullness?

A.—Certainly not, but education changes the character and the view point of the people.

Q—My point is this that the dullness of mind is not due to agriculture but to lack of education.

A.—Of course it is to some extent also due to the exclusive atmosphere which is created in rural areas. People engaged in agriculture are far away from centres of culture and civilization.

The President Q.—I understand that you are an advocate of the principle of 'no representation without taxation'. Will you have no exemptions at all?

A.—I think that if democracy is exempted from taxes, it will be as oppressive as the aristocracy was when it was exempted from taxes, and therefore it is necessary that this maxim should be adopted in our political science

Q.—Would your tax on the poorest class be indirect or direct?

A.—I have proposed a poll tax, a direct tax, and it is the trend in America You will find that in America poll taxes are levied in some States Even in ancient India no one escaped taxation There was in ancient times a very complicated system of finance Even the labourers, it would seem, had to work free of charge for one day in a month I think that was a very good plan, because that was a direct pinch upon the labourer, and he felt that he was doing something for the State for the protection he was enjoying To-day it is necessary to have some such thing

Q.—The poll-tax has been used as a political weapon, and do you think there is no such danger arising out of your proposals?

A.—I want to impose that tax for educational purposes only in those villages where you are going to open schools It will be a local tax and it will be used for local institutions It will be imposed on every male inhabitant between the ages of 21 and 45, irrespective of the fact whether he possesses anything or not.

Q.—Don't you think it will be somewhat unfair?

A.—It will be a stimulus for every man to work I want everybody to work, and my principle is 'no bread without work'

Q.—Do you make the payment of the tax a condition for being registered as a voter? Is not there a danger that political associations will pay the taxes for voters in order to secure a majority for a particular candidate? Has not that happened in America?

A.—You have devised so many laws against corruption in elections, and so won't you be able to devise something effective if you find that political associations will pay the taxes for voters so as to secure a majority for a particular candidate? I think the Government machinery is sufficiently powerful to cope with these small things

Q.—The Government under such circumstances would be the representatives of the party which pays most for a candidate

A.—In India there is no fear of that There is at present no party which is strong enough to resort to such things You will have the group system instead of the party system here The true party system does not seem to bloom here as yet

Q.—Then your property tax, you propose to assume that personal property is in proportion to the value of the house?

A.—Yes

Q.—Has it not also been urged in the United Provinces as a reason against the introduction of a house-tax that there is many an impoverished member of an old family living in a house which is too large for him and which for family reasons he is unable to vacate or for which he cannot find a purchaser?

A.—There should be a moderate tax, because when there are so many sources open we need not resort to heavy taxation

Q.—Now to come to what you call establishment licenses, they are rather business taxes?

A.—Some of them are business taxes and some are luxury taxes

Q.—In places where the profession tax is in force, is not this exact system operating?

A.—It is not throughout India, but only in some places

Q.—They would all fall under the Madras municipal profession tax?

A.—I think my list is rather bigger. My first point is it is not made universal, and I want it to be made universal. Municipal income should be increased in that way.

Q.—Do you dislike the octroi?

A.—Yes, I dislike the octroi, and I think it should be abolished. It falls on the consumer, and it adds to the prices of the articles, and therefore I say it should be abolished.

Q.—Is it not the experience in certain provinces where they have the octroi, that the consumer does not apply for a refund?

A.—The trader does not apply for refund. In my opinion the whole system is vexatious.

Q.—How do you say that the octroi falls on the consumer?

A.—The merchant adds to the prices of the things he sells.

Q.—A merchant brings in a lot of things, and on the stuff that goes out again he bears a tax?

A.—But probably he has already added to the value of the stuff he has sold in the town. He knows that he cannot get a rebate and therefore he adds more.

Q.—Similarly dogs and carriages, they are all taxed in some municipalities?

A.—Very few municipalities tax carriages and dogs.

Q.—I know in Madras the municipality taxes hackney carriages and dogs.

A.—But Madras is not the whole of India. In the United Provinces we have not to pay a tax, in the Punjab I have not to pay. In any case I suggest that some sort of uniformity should be observed, otherwise the tax becomes unequal.

Dr. Paranjpye. *Q.*—Regarding lands you say that "now that fiscal autonomy is coming into the hands of the Indian people and a large measure of self-government is within sight, it is suicidal to proceed on such uneconomic and reactionary lines. The second reason for the agitation for long and perpetual settlement is to be traced to the personnel of the Councils and the Councils being packed with representatives of agrarian interests," now you propose a very fine scheme for reducing the period of assessment or levying income-tax upon agricultural lands. My difficulty is who is to bell the cat. The Councils themselves have got to make rules and frame laws?

A.—There must be agitation as in other countries.

Q.—The Councils' interest is not to have it because as you say it is composed of representatives of agrarian interests, and I want you to suggest some scheme.

A.—It is only through agitation by the public and by economists that you can bring the people round.

Dr. Hyder. *Q.*—*Do you wish to enhance the land revenue?*

A.—No.

Q.—Then do you wish to put on a tax?

A.—Yes, only on the incomes of big landowners.

Q.—But you say that this land revenue is not a rent but it is a tax.

A.—It is not a tax in that way. I say it is a part of the rent which is being paid by the tenants. What I say is that only big landlords, those who are hereditary managers of estates must be taxed. I do not want to tax the small landowners because I think that, although there is the Land Alienation Act, many of them have bought lands and therefore whatever income they are getting by way of interest on the investment they have made should not be taxed. My remarks only apply to big landholders, to hereditary managers of lands, to talukdars of the United Provinces, the inamdars and zamindars of Bengal, Bihar and Orissa where they have permanent settlement, because I think they are not paying their full quota of the income which they are getting.

The President. Q—Do you propose to tax them at a special rate?

A.—They certainly require to be taxed more, because they have got the monopoly Although there is reason for special assessment, we may not resort to it, but let a higher rate of income-tax be levied upon them. I have already said that there should be a differentiation made between steady incomes and precarious incomes and on account of the monopoly which these zamindars enjoy and also on account of the permanent incomes which they have from their lands, they should be charged a higher rate

Q.—Take the case of a man who happens to have a permanent income from his lands, who happens to be in government service and who also happens to have some investments How will you charge him?

A.—He will pay a tax on his own income say at the rate of 5 pies in the rupee on estates he will pay at 6 or 7 pies it may be, and on investments he will pay 4 or 5 pies In England you have made all those distinctions There ought to be a distinction in the levy of rates as regards income from properties and income from salaries as well as from investments

Q.—I would invite your attention to one of the Australian methods of calculation (Here the President handed a book to the witness) Do you think it can be done in India?

A.—So far as Schedules 1, 2 and 3 are concerned, I think Australia is making a difference between investment incomes and earned incomes

Q.—Have you read the recent Report of the New Zealand Taxation Commission?

A.—No, I have not seen it

Q.—Dealing with cotton excise, you say that its abolition will only serve to swell the profits of the Indian millowners?

A.—Yes, because the import duties have been raised and there is a likelihood of their being raised still further Then there will be a large difference between the excise and the import duties which would be sufficient to give a kind of subsidy to the millowners At present no difference is made between one industry and other industries which are carried on in this country in the matter of levying excise although there is an import duty, so why should a distinction be made in regard to cotton alone?

Q.—On principle you do not disapprove of the levy of a customs duty and an excise duty at the same time?

A.—That will depend upon the different industries We will have to consider whether a certain industry requires protection or not

Q.—You propose an export duty on rubber and coffee?

A.—If it is possible If there is likely to be a sufficient income by the imposition of an export duty on rubber and coffee, then why should we not put on a duty? There has been a very large increase in the export of rubber, and if we can probably capture the world's market in course of time, I think the income from the imposition of a duty on rubber and coffee will be very great.

Q.—Surely India does not hold the monopoly for rubber and coffee There is also a number of other countries which supply these articles

A.—We have to study that question Therefore I say, 'if it is possible' I have no statistics relating to the export of rubber before me and if we find that we can derive a good income from this source, I don't see why we should not levy an export duty on these commodities

Q.—Then you propose an excise duty on tea and coffee? Will it not be rather hard on the poor man?

A.—Many of the poor people don't drink tea and coffee

Dr Paranjpye Q.—In the Bombay Presidency the poor people would rather forego their meal but not tea?

A.—They will have to change their habits

The President Q.—Would not an excise duty at the present stage be killing the goose that lays the golden eggs?

A.—I don't think so

Q—Now, may I know something about your estimate of the average income? What is your opinion about Indian statistics on this subject?

A—The information we have is very meagre, and the figures that are available cannot be very much relied upon. At every step we find something is missing.

Q—And yet you have succeeded in making an estimate of the average income?

A.—Well, on the basis available I have already stated in the beginning that there are so many difficulties and there is much vagueness about the figures available, still if we can arrive at any truth it is this If you take Mr Shah's estimate of the agricultural income, you will see that it exactly tallies with mine The total value of the agricultural produce of the country which he and I have arrived at is the same. Of course the difference lies in the fact that I reduce it by half for expenses, while he takes the gross income and divides it by population and therefore he says 36 is the income I give 18 as income, because I have shown that half of the produce has been consumed by the agricultural classes and they will have only the net produce, hence my figure is only 18 In regard to agricultural expenses while he has taken the gross income and divided it by population, I have calculated only the net income for the reasons I have given and then divided it by population, and therefore my figure is reduced by half That is a very important point Either he should be wrong or I should be wrong, but we cannot decide it at once It is a quest after truth. I do not hold a brief for my own estimate, but I am glad so far that the gross income worked out by him and by me is the same Now the question is, what is the net income? I say the gross income should be reduced by half for expenses while he gives a different estimate for expenses Now it is an open question for the public or for the statistician to decide whether my items of expenditure should be included or not

Q—Your main item is the wages of labour?

A—That is only one of the items I have further pointed out that this will be the cost to the agriculturists, because they are agricultural labourers and therefore their income from wages should not be deducted. Then from among the thirteen items, we ought to ignore two very big factors, namely rents and other dues received by landlords, and wages obtained in kind or in cash by all labourers who have directly helped to raise the produce, because these two classes, *the masters and the servants share the produce The other items are spent on non*-agricultural classes, and therefore the income that has gone to the non agricultural classes or to the State should be deducted Therefore these two items, namely rents and other dues received by landlords and wages obtained by labourers in cash or in kind should not be deducted from the expenses of cultivation, and they should not be considered as expenses of cultivation, nor can they be included in the expenses of agriculture Only eleven items have to be considered for working out the cost of agricultural production, and the two items I have just *named although they are expenses to the agriculturist who is raising the pro*duce, they really go into the hands of the agricultural classes, and therefore they ought not to come under the items of expenses, they ought not to form a part of the fifty per cent

Q—Could you show me where you have taken them out of the fifty per cent?

A.—I give the estimates of Settlement Officers and also the estimates of ryots

Q—Would you look at the estimate of the ryot? You have got their estimates of labour. Your estimate of ryots is fifty per cent. You take the ryot's produce less wages, and you don't take the wages of labour?

A.—Hence an addition is to be made for these items and a deduction is to be made for the items of wages of labour.

Q—Would you please refer to page 133 of Digby's book? You repudiate him altogether?

A—I don't say that I am following Digby throughout, but where the figures are already given, how can I omit them!

Q—Now let us take seed, it comes to about eighteen and a half per cent?

A.—It all depends upon the soil and the land, because poor land will require more seed and a large quantity of the seed is sometimes taken away by birds

Q—I would point out that Dadabhai Naoroji allowed six per cent for seed and manure that is less than a third

A—But what is the year of his estimate? Prices have gone up very much since then

Q—I think Mr Shah takes seed at two per cent, whereas you take eighteen per cent, which seems to me to be somewhat large

A—We have got our own village and I had the opportunity of not only ascertaining the information from one of the landlords, but also of looking at the thing myself

Q—Mr Shah's estimate is 2 7

A—It all depends upon the various qualities of lands and also upon the kind of crops you are going to raise Where the soil is good, you will require a smaller quantity of seed, and then in provinces where birds are numerous, a larger quantity of seed will be required It all depends upon the locality (Witness referred the Committee to page 527 of Digby's "Prosperous India") This is one There is a second I will give you the reference These are expenses including land tax but excluding wages (My estimate of a ryot's expenses also includes land tax but excludes wages for labour) I am not quoting Digby I am making corrections in his estimate, because I have to deduct the wages bill and add five items more which have been ignored by him

Q—Just above that, you have the estimate of a settlement officer. The estimate of an individual ryot is not very indicative of the status of India as a whole Let us take the estimate of a settlement officer You say that all these figures can be had from a table in Mr. Digby's "Prosperous India"

A—The table is on page 527 of Digby's book He has got two parts of the same table the estimate of a settlement officer and then the estimate of a ryot The difficulty is I did not quote the page in my book. It is seven years since I wrote this book and I could not remember where the table was from These are the two parts of the table which have been adapted.

Q—I want to find out whose table it is

A.—That will take a long time He simply says, "Estimate of a Settlement Officer" and "Estimate of a ryot." In Government reports sometimes the cost is not given That is why I took up Digby If I had been able to get the cost from some Government report, I would have preferred it

Q—This is very old

A—Yes.

Q—It is a private estimate of a ryot, published in a letter to a newspaper, relating to a single district.

A—Yes Similarly, my figures go only to the two or three villages round about They do not cover the whole.

Q—Your estimate is based on the three villages round about and differs from his estimate in that your estimate includes wages . .

A—I exclude it

Q—On your own estimation the fifty per cent includes the wages.

A—But there are so many other things which have not been included here in this table Only the wages bill has been given, and the other items have not been given

Q—And in your table on page 152 you again divide the output by a half and then divide it by the total population.

A—Total agricultural population. I have already said that there is a difference of opinion whether we should divide the gross or the net and what should be the net

Q—On page 154 you say: "9 per cent less commodities in 1900 and 27 per cent less in 1911-12 compared with 1891" That is, prices have been falling, and you say that that has affected the ryot seriously.

A—*Prices have been rising* Prices would rise and therefore the purchasing power of money would fall, meaning thereby that he will have less commodities.

Q—Does he buy his grain?

A—He does not buy his grain, but he buys other things.

Q—He sells his grain, so that he would have an advantage.

Dr Paranjpye. *Q*—The commodities that he would like to buy are the commodities barring grain. Have you found out that the prices of other commodities have increased in the same way?

A—I have given two tables, one for foodstuffs and another for non-foodstuffs, on page 153 Taking averages, we arrive at 98 and 39

The President. *Q*—May I ask why you take the average of six only?

A.—These form the needs of the agricultural classes—cereals, pulses, sugar, other articles of food, oilseeds and cotton These are the representative needs of the labourers

Q—May I put it to you that the index number of imported articles in 1880 was 110 and in 1901 it was 116, so that there was an increase of less than five per cent against your 76?

A—In any one year which you select there may or may not be a rise I was only concerned with 1891, 1901 and 1911

Q—You find a seventy-six per cent rise in cereals, pulses, sugar, other articles of food, oilseeds and cotton, all of which articles the ryot sells?

A.—True

Q.—May I put it to you that the rise in the general index number was only five per cent, so that he was getting a big profit on what he sold but there was not the same increase in what he bought?

A—He will be getting more income on account of the rise in prices But on manufactured articles he will be spending more

Q—Now, to pass on, is it correct to deduct Government dues?

A—Yes

Q—Are you not subsequently going to consider the incidence of taxation upon the income which you have arrived at?

A—So much has to be paid by the agriculturist to the Government I am arriving at the figure which will be left to him.

Q—If you have already deducted it, then you cannot apply the incidence of taxation on that

A—Of course, it is not for taxation purposes.

Q.—And then, you deduct charges for water.

A—Irrigation Government is charging extra for supply of water and he has to spend that money.

Q.—Tips to Government servants?

A.—Surely it is a very big sum It is not to the higher officers but only the patwari and the police.

Dr. Paranjpye. *Q*—You were just now saying that we should trust the patwari to estimate large crops?

A.—These tips are usual In England you have to tip every man. In France you have to tip ten per cent of what you spend even to the hotel keeper and motorwalas Tip is becoming a civilised manner of bribe

The President. Q.—Do you consider interest on a productive loan as an expense of cultivation?

A.—It is an expense of the agriculturist which ought to be deducted.

Q.—Expenses for improvements?

A.—Wells, barriers, enclosures, etc. He may have incurred capital expenditure

Q.—When you have put the interest on it?

A.—Interest on the money that he has spent. He might not have borrowed the money He might have some savings and invested that money in improvements Naturally no interest will be paid

Q.—Expenses of litigation? Is that a necessity?

A.—It is an expense which the agriculturist has to incur. He does not go to court free of charge He has to pay stamp duty

Q.—Is it a necessity or a luxury?

A.—That is a question.

Q.—You would hardly count that in any other country as part of the expenses of cultivation?

A.—Do you think it ought to be or not? It is an item of expense. In my opinion it ought to be included.

Q.—I do not consider it an expense of cultivation

A.—It is borne on account of the profession that he is following. There are so many quarrels among the agriculturists

Q.—Do you mean to say that nobody can cultivate land in this country without going to law?

A.—There is this item. It may be incurred or it may not be incurred These items are not universal They may be included in the expenses of one cultivator; they may not be in those of another. All items will not enter into the cost in any particular case.

Note.

The following articles of the constitution of Louisiana distinguish between native and foreign corporations :—

Art 242.—Corporations, companies, or associations organized or domiciled out of the State, but doing business therein, may be licensed and taxed by a mode different from that provided for home corporations or companies; provided, the said different mode of license shall be uniform, upon a gradual system, and said different mode of taxation shall be equal and uniform as to all such corporations, companies or associations that transact the same kind of business.

Art. 242a.—All banks, banking associations, banking corporations or banking companies, doing business in this State, but domiciled in other States of the Union or in foreign countries, who in their own name or in the name of their [illegible] business of lending money [illegible] a yearly license tax of two [illegible] the Municipal or Parochial [illegible] pay to the State an annual [illegible] on all money loaned, and [illegible] of two-half per cent, and [illegible] by the State or by any political sub-division thereof.

P. 547 of the State Constitutions by Charles Kettleborough, Ph. D. (B. F. Bowen and Co, Indianapolis.)

Q—On page 154 you say: "9 per cent less commodities in 1900 and 27 per cent less in 1911-12 compared with 1891." That is, prices have been falling, and you say that that has affected the ryot seriously.

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P. 547 of the State Constitutions by Charles Kettleborough, Ph D (B. F. Bowen and Co, Indianapolis.)

18th December 1924.

Delhi.

PRESENT:

Sir CHARLES TODHUNTER, K C.S I., I.C S, President
Sir PERCY THOMPSON, K B.E, C B
Dr. R. P. PARANJPYE
Dr L. K HYDER, M.L A.

Mr. L. J. SEDGWICK, I.C.S., Offg. Director, Labour Office, Bombay, was examined.

Written memorandum of Mr. Sedgwick.

1—The draft annexure omits under "III.—Statistics of Prices" to mention the collection of retail prices by the Bombay Labour Office The Labour Office collects through "Investigators" who are gazetted officers ranking with Deputy Collectors—retail prices of various commodities consumed by the Bombay Mill Operatives from shops in the mill areas These are used for the working class cost of living index published in the Labour Gazette

Prices for Ahmedabad are similarly collected as the Labour Office has an Investigator there.

These retail price figures are of use only for the special purpose for which collected

The Labour Office is now engaged on an examination of the Wages and Prices figures of the Bombay Agricultural Department, which are available since 1889. So far as can be judged at present these retail price figures are fairly satisfactory for the study of the trend of prices at one and the same station over a number of years But they cannot be used to compare price-levels at one station with price-levels at another station

Under "IV—Statistics of Income (*b*) Statistics of Wage-Earners" the same remark applies So far as can be judged at present the figures for wages of "Skilled", "Ordinary" and "Field Labour" at mofussil stations in the Bombay Presidency are fairly reliable as showing the trend over long periods.

The Bombay Labour Office has published a Report on Wages and Hours of Labour in the Cotton Mill Industry in May 1921, and a second Report on the same for August 1923 is now in the Press. The same office is now conducting a census of *clerical* wages and hours of labour in Bombay City, by means of a questionnaire sent out to commercial firms

I take this opportunity of saying that no index numbers for *Real* wages, as opposed to *Nominal* wages, are at present possible, even for the Cotton Mill operatives in Bombay City.

Under "V.—Vital Statistics" my experience of the Bombay Presidency is that the statistics in the Deccan are very [illegible] Karnatak, in the Konkan fairly good, *but in* [illegible] depend on local circumstances which cannot, s[illegible] The key to efficient registration of vital s[illegible] [illegible]istence of efficient village service (Headman and Messengers). These are non-existent in Sind. In my opinion specially bad areas like Sind should be excluded from our

estimates, and the vital statistics for such areas deducted approximately by proportion on the basis of the remainder of the country This would work out all right except in the case of epidemics, when special allowance can be made based on such information as is available.

2—The term "National Income" seems to be used interchangeably for three (amongst other) different concepts, viz —

(1) the aggregate national production of tangible goods,

(2) the former aggregate *plus* the value of non-production services, and

(3) the sum of private incomes

Whether (2) is in theory identically equal with (3) is not here discussed The public think in terms of (3) and direct taxation is levied on private incomes as such.

Mr. K. J Khambata, M A. (in "Wealth and Taxable Capacity of India" by Shah and Khambata) has defined "National Dividend" as the "nation's material and tangible production in a year", and differentiated it from "National Income", which he defines as "the sum total of the earnings of all the members of a community (including the *personae fictitiae*) (p 30)". On the same page he notes that in computing "National Income" in the above sense we must deduct for double counting.

This differentiation of the two concepts is helpful, although it is doubtful whether in "National Income" as defined by Mr Khambata, and referred to below as "sum of Private Incomes" one should include the incomes of *personae fictitiae*; and, if by "double counting" Mr. Khambata means the allocation to the incomes of both individuals of a sum paid by one individual out of his income to another individual within unit time, then it would seem that this type of double counting is, for the particular concept under consideration, correct

Unfortunately Mr Khambata, after defining "National Dividend" in the above way, and finding that it gives a figure, which divided by the population, produces an average of Rs 74 per head, goes on to apply it in the other sense—making the National Dividend equivalent to the sum of private incomes, and the *per capita* share of the National Dividend (a purely abstract concept) equivalent to the average of Private Incomes (a definite practical quantity) (See p 201 of the book) He therefore seems to have fallen into the very pitfall against which he warned his readers at the outset.

The confusion is again continued by Prof. Shah, who in his portion of the book, on pp 292 to 308, distributes among the individuals constituting the Indian population the net remainder of Mr Khambata's gross National Dividend, after certain deductions There is nothing to show that Prof. Shah regards private incomes as in any way different from shares in the National Dividend It is suggested further down that there is no such thing as the distribution of the National Dividend, as the nation is here a simple indivisible unit

Mr. Findlay Shirras in his book "The Science of Public Finance" has apparently taken National Income in the usual sense of Total Gross Production *plus* values of Non-production Services For Gross Agricultural Production he uses methods analogous to those of Mr Khambata, though there are serious differences between their findings (this will be referred to again below)

Not having production figures for non-agricultural production Mr. Shirras arrives at a figure for non-agricultural production *plus* non-production services combined by the use of a guesswork formula It is explained that the non-agricultural national income in the table on p 141 for the year 1911 is arrived at by the formula ,—

Non-agricultural Income is to Agricultural Income as Non-agricultural Population is to Agricultural Population. This formula is a mere assumption, which may or may not be correct

For 1921 and 1922 the agricultural income figure for 1921, though stated, was ruled out of court, on the ground that 1921 was a bad season (In passing it may be remarked that 1911 had been a very bad season also) And the 1922 agricultural figure is used as the base for both years The agricultural population of British districts was evidently arrived at from the 1921 Census Tables after excluding from agriculture the population under Order 2 "Fishing and Hunting", and an arbitrary figure out of Group 1 "Income from rent of agricultural lands" as representing landlords living in towns. The figures so arrived

at must have been somewhere near 175 5 millions for agricultural and 70·5 millions for non agricultural population, since the proportion was about 40 7 per cent of the latter on the former. On Rs 1,983 crores 40·7 per cent produced Rs 808 crores, to which was added an arbitrary sum of Rs 75 crores, making Rs 883 crores for non-agricultural *income for both years*

This method would seem to be dependent on a good many assumptions Mr. Shirras then checks his figure of Rs 883 crores by giving on p 144 a table showing the "approximate annual earnings per worker" in each of the non-agricultural occupation classes of the census In this table we are faced with figures which are not always even approximations from data, but simply *guesses* Mr. Shirras' guess for the average earnings in "Trade" is Rs 500 per worker, and the same for "Professions and the Liberal Arts" Now, supposing that this guess is only half what it should be, the total earnings in the table would rise from Rs 1,019 crores to 1,519 crores, and this would invalidate the whole argument. As a matter of fact there is reasonable ground for thinking that, even making allowances for the fact that actual workers under Trade in the Census table include employees as well as employers, the average earning of actual workers (Rs 500) is too low.

The computations of Mr Shirras are not given in full, so as to show methods of working In this particular Messrs. Shah and Khambata's book is easier to follow. But the results of both these authorities require very careful scrutiny. For example, in the case of cattle the latter authors show National Income from cattle *nil*, while Mr Shirras shows Rs 310 crores from milk and Rs 7½ crores from hides. And yet the method adopted for valuing production from cattle appears to be the same in the case of both authorities In Mr Khambata's method cattle are treated as a single item in national capital Value of new stock is not counted, as it is offset by losses of old stock Cost of feeding cattle is deducted from their production (milk, etc), and the net figure taken Mr. Shirras' remarks as to his methods (p 138) are not at all clear, but it would seem that the above is approximately his method also

Even in the actual computation of the gross outturn of milk there seems to be an amazing difference, since Mr Shirras shows Rs 310 crores in his Table, while Mr. Khambata's figure (table on p 147 of his book) is only Rs 130 crores, although Mr Shirras' figure is for British India only and Mr Khambata's for the whole of India

Mr Khambata's "National Dividend" is the sum of gross production, less amounts required for replacement of capital. Prof Shah in the second part of the book takes Mr Khambata's gross production figure and arrives at a Net National Dividend by deducting certain charges.

Accepting Mr Khambata's principle of excluding services it is suggested that exports and imports should not enter into the computation at all, since for every export or import there is a corresponding exchange of equivalent money value Here we see again the difference between National Dividend and Sum of Private Incomes, since the importer who realises a profit on his imports, is only realising that profit from members within the nation There is simply a transfer from one individual to another

In this matter Prof Shah's method is open to question inasmuch as he (on pp 205, 206) debits against National Dividend not only the retailer's profit on imported goods but the middleman's fees on exports But the retailer and the middleman are just as much cells within the living organism, the Nation, as are the consumer and the producer

Again, Prof. Shah would seem to have wrongly debited the cost of Government stores purchased in Europe These are homologous with ordinary imports. There is no loss to the National Dividend though there is a loss to the Sum of Private Incomes (by cutting out the potential profits of India Manufacturers).

It would seem however to be correct to add to or deduct from balance on the total of all charges such as freights and interests on foreign investments, for which nations are as against one another debtors or *creditors*

Replacement of capital would seem to include replacement of plant, provision for seed grain, and feeding charges for cattle. The latter has already been referred to The total of cattle in the country is regarded as a constant capital item, and the feeding charges as replacement of that capital.

The average *per capita* share of the National Dividend in the above sense is a mere abstract concept, though possibly useful both for comparison with the data for other nations and also for measuring the total amount of taxation.

It is suggested that *there cannot be any such thing as a distribution of the National production among individuals* In this concept there are no such things as individuals; the nation is the unit

The "Sum of Private Incomes" is a different concept altogether "Income" is here used in its ordinary popular or domestic sense Each individual income-receiver—or perhaps preferably each family—is a distinct unit If one individual out of his income pays a sum to another individual within unit time (a year) it must be counted to the incomes of both

The arithmetic mean is here the worst possible type of average to use because it allows a comparatively small number of observations in the high value classes to obscure the most frequently recurring type, just as the £1,000 cheque in the Church offertory (to quote the classic example) raises the average offering to a figure which bears no relation to actual facts

Nor is the *per capita* value for private incomes a measure of much usefulness No householder thinks in terms of the average of his income when divided by the number of persons in his family, irrespective of age Nevertheless the *per capita* values of private incomes have been so frequently stated that it is necessary to use this form of average, in spite of the ever present danger of its being confused with the *per capita* share of the National Production

We have therefore to present our individual incomes grouped into classes with convenient class intervals The frequency distribution arrived at from the material, whether with the family or the person as the unit, is a guide to the wealth or poverty of the country and its different classes, especially when compared with the minimum subsistence level and other arbitrary lines which can be fixed by empirical methods (theoretical budget)

It is not for a moment suggested that the "Sum of Private Incomes" is a term which has any concrete meaning On the contrary it is just as abstract a concept as the "share" of the National Income Yet both these values are ascertainable if sufficient data are available They are abstract concepts, but not meaningless like the term "distribution of the National Income"

4.—Each Local Government might possibly make use of calculating machinery For instance, if each birth and each death were put on cards, a good deal of rapid tabulation could be done The cost could be partly met by reducing staff in other offices which now tabulate their figures by hand

5.—In India, where most of the production is by artisans and others in villages, a census of production would be as formidable as the population census It is perfectly feasible, but would be very laborious Besides, the common people would certainly believe that its object was to tax them

A census of production for village artisans based on sampling, applied to the census occupation figures is also feasible Samples carefully taken might be better than a general census carelessly taken This sampling would cost almost nothing as it would be done by the Revenue establishment Tabulation would have to be done by special staff.

6.—There is no objection to an "Enabling Act" The main reason why the Bombay mercantile community wanted all India Legislation is that the Bombay Government cannot apply compulsion to imperial departments such as Posts, Telegraphs and State Railways, and these departments are very big employers of labour.

8.—The Bombay Labour Office Report on an Enquiry into Working Class Budgets is a study of standard of living of the mill-hands The detailed tables enable the incidence of all indirect taxation on this class to be studied.

A similar enquiry into the standard of living among clerical and other middle class families on fixed income is being conducted Tabulation is now going on.

Appendix W to the Bombay Census Report does not enable the incidence of taxation on different classes to be studied

The only method I can suggest is the collection of Family Budgets

A.—If in the case of certain individual classes of the population they are paid the exact amount of their production the sum of their private incomes may be exactly equal to the share of the national dividend in Mr. Khambata's sense This might happen in special cases, for instance, a particular class of village artisan producers who sell retail.

(Question 3 was not answered)

(Answer to Question 4 was read)

(Answer to Question 5 was read).

Q—Is there a village revenue establishment?

A.—Yes. We have such village establishment right through the Bombay Presidency (I am speaking of course only of the ryotwari tracts). You can always measure any phenomenon either by complete enumeration or by sampling.

Q.—How is the revenue staff going to take a sampling?

A.—The village accountant would generally be called upon to do this He would be asked to find out, for instance, the value of the goods produced by one or more individual village potters in a year

Q.—That would be the means of taking a census of handicrafts?

A.—An estimate of production from handicrafts. The big industries always publish their figures

Q—Don't you come across in every one of the calculations in the published books that we are discussing quite a number of points in respect to which you have got to make an assumption?

A.—Yes, various factors enter into the computation, and some must be estimated from assumptions

Q—Take cattle, for instance How can you arrive at any figures of the cattle of the country?

A.—I do not consider that we want to arrive at the value of the cattle in the country because cattle are a constant capital item You can only arrive at the annual produce In the Bombay Presidency we have got the Quinquennial Cattle Census, the figures of which must be used in the absence of any other information The Agricultural and Veterinary Departments would be able to give you the output per head They have got their own dairy farms and have had Indian cattle under observation for many years

Q—How would you enumerate poultry?

A.—We could not enumerate them.

Q—We have, for instance, been given the estimate that you have 12 eggs per village per day?

A.—I do not know if anybody has so far arrived at an estimate of that nature, but it should not be impossible.

Q—Then take another thing, namely hides and skins How do you arrive at the value of what is locally consumed?

A—It does not matter whether hides are locally consumed or exported. They go into gross production I should say that it depends upon the number of cattle, the figures of which you have got, and the average length of life of an individual animal

Q.—Is it not your experience that there are many millions of cattle in this country that are never expected to give milk?

A—Yes; they are largely kept because they are not to be killed In some parts of the Bombay Presidency the cattle are private property only for a part of the year. For the rest of the year, they are turned out in enormous hordes. They come home again when the rains begin. But formulæ could be arrived at for making allowance for cows that are not giving milk.

(Answer to Question 6 was read).

Q—Your Bill provides for collecting prices only from larger employers of labour?

A.—We get the wages of the ordinary labourers from the Agricultural Department. They record them every month The Bombay Agricultural Department receives them from the various mofussil stations The monthly figures of wages of ordinary labour (both skilled and field) can be relied upon. They can be used for the purpose of showing the trend of changes in wages over long periods The mamlatdar or his clerk generally puts down what he knows from his empirical experience to be the rate prevailing at the time. I do not think he will be far wrong They have to submit them every month to the Agricultural Department. The Bill was to cover all employers of labour employing more than 20 persons.

Q.—That would compel them to give the actual wages?

A.—I have not got a copy of the Bill here in the form in which it was proposed to refer it to select committee, but it was provided that information may be obtained on certain definite heads and from certain definite classes of persons, *e g*, from employers of labour as defined in this Act, information relating to wages and hours of labour and so on It was left open for the Government Statistician to decide what Industries to call upon for returns and when

Q—Have you any views as to how a wages census should be compiled?

A.—The Bombay Labour Office made a complete census of wages and hours of labour in the cotton mill industry in the Bombay Presidency twice, once in May 1921 and again in August 1923 A form was given to each employer to fill in. I can show you the form used in 1921 (Here the witness showed a form to the President)

Dr Hyder Q—Is it the same as the English form?

A—I don't think it is the same Our form was prepared to suit local conditions in this special industry The English form may have been used as a guide Our census related to the working of the mills in a given month, and we obtained figures once in May 1921 and again in August 1923 We also made full allowances for holidays; and on the second occasion allowance was also made for absenteeism, which had not been made in the first report

Dr Hyder Q—Was it a normally busy month?

A—Most months are normal They do not vary much in the Bombay Mills But August was chosen on the advice of the millowners

The President. Q—Then we pass on to Question 7.

A—I have not answered Question 7

Q—Question 8

(Answer to Question 8 was read)

Q—Can you give us any idea as to how you would divide the population with reference to the taxes which they pay?

A—Occupation division is the only thing that I can suggest for the moment, I mean taking the census occupations in their broadest connotation

Q—The poorest classes pay the salt tax, the cotton duty and a certain number of customs duties, I take it?

A—Yes.

Q—When you get a little higher, they pay the municipal tax?

A—Yes

Q—When you go little higher still, they pay the income-tax?

A.—Yes But it is open to question whether the lowest classes in cities do not pay some municipal taxation indirectly by paying higher rents to their landlords

Sir Percy Thompson Q—Are house-taxes paid by landlords in Bombay?

A.—Yes They are assessed on the landlords Of course, the lowest classes also pay a good deal of the excise in the form of liquor consumption

The President. *Q.*—Would you count that in assessing the burden of taxation?

A—That is a problem, I would rather not discuss.

Q—Do you think it is practicable to get sample budgets to show where particular taxes are hitting particular classes of people?

A.—You mean a theoretical budget, or an average budget for a given class? I think it would be feasible, because the population falls fairly definitely under certain particular classes

Q—And the taxes fall definitely on particular classes?

A.—That will have to be ascertained from the theoretical budget

Q—You can allocate the land-tax and the income-tax, the salt tax and one or two things The only thing you would have to divide up would be the Customs Do you think it would be practicable to divide that up into necessaries and luxuries?

A—I have not got the Customs Schedule before me. If the articles which are produced locally and those which are imported are taken into consideration, you could never distinguish, however detailed your budget was, between the consumption of one and the consumption of the other. There must be some commodities which are both produced locally and also imported with a charge of customs duty.

Q.—In which case the price of the locally made article is raised to that of the imported article?

A—Not always Can you suggest any particular commodity?

Sir Percy Thompson. *Q*—Paper?

A—Yes, there is a certain amount of paper produced locally. But it will come into the family budget in the miscellaneous group under the head of stamps, postage and stationery, and it will be quite impossible to say in the case of any class whether they use exclusively home produced paper or imported paper or half and half. I don't think you can arrive at the exact distribution of customs duties.

Q—Could you take your Customs tariff and say that certain items affect the poorest classes and the rest do not, and therefore the proportion of the customs revenue which should be divided among the whole population is such and such?

A.—I think it will be somewhat difficult to do so with certainty

Q—Could you say what is the expenditure on salt in a working class budget?

A—The percentage distribution expenditure on salt in the Labour Office Enquiry into Working Class Budgets was 0 39 of the total expenditure

Q—In comparison with that, what is the expenditure on tobacco?

A—It is 3 44 That includes tobacco used for making *biris* and tobacco used for chewing

Q.—Do you think it will be practicable to replace the salt tax by a tobacco tax?

A.—I do not know what the production of tobacco is I have not gone into the question. It depends on the amount you would have to put on on every maund of tobacco produced.

Q—Supposing it were practicable, will it from the point of view of the working classes be beneficial to tax a luxury?

[illegible] the percentage of expenditure on tobacco [illegible] wrapped round *biris*) while the expendi- [illegible] at the prices prevailing in 1921-22 The [illegible] rse vary slightly according to the variation in prices

Q—Do these family budgets give any further indication of the amount of expenditure, for instance, liquor?

A.—Liquor was 4 14 per cent.

Dr. Hyder. Q—Your figures relate to Bombay mill-hands and I suppose they don't relate to the general conditions of the country as a whole?

A—Yes, the figures relate only to the Bombay mill hands, and I imagine the budget distribution of labourers in the country would be very different.

The President Q—In arriving at the average income what statistical method did you use in your Census Report?

A.—In Table I of Appendix W to the Bombay Census Report I showed the frequency distribution of *per capita per annum* income values with the family as the unit by class-intervals In the body of the Appendix I stated only the most frequently recurring values as an approximation, namely—Presidency proper, urban Rs 100; rural Rs. 75; Sind, urban Rs 140; rural Rs 100 The average in the usual sense of the arithmetic mean would necessarily be considerably higher than the most frequently recurring type, as shown in paras. 32 and 33 of the Appendix.*

Dr Paranjpye. Q—As regards your Table for the Konkan, I think you probably omitted the item of remittances from Bombay, and that is why your income figure for the Konkan appears so low, because a large number of people go to Bombay from the Konkan, and make remittances from Bombay to their homes

A—It is possible But in the form which was used for these family budgets each correspondent had to put down the income of all the members of the family My impression is that my correspondents would not have selected a family the head of which was in Bombay

Q—Under "Other Compulsory" and "Other Voluntary" expenditure (which includes Travelling) you will see the figures are somewhat larger in the Konkan than in other places Don't you think it is due to the expense on travelling to and from Bombay?

A—It may be possible, but I think the Konkan people are genuinely poorer than those in the rest of the Presidency However the lower Konkan incomes may also be due to errors in sampling (in the statistical sense)

Q—The people are poor, but they make up for it by their work in Bombay?

The President Q—May I come back to Customs? There is the Import Tariff There is an attempt to divide up the duties between the two different classes The first one is the avoidable and the second is the unavoidable The idea is that the unavoidable hits everybody, while the avoidable hits a limited class

A—What is avoidable in one class of society may be unavoidable in another. For instance, a motor car is unavoidable to certain classes of people, and that is where the standard of living comes in Taking the case of tobacco, cigarettes and *bidis*, it means that, to find out the cost of living of our working classes, you would have to go down to the minutest detail in every given case, and we will have to see whether the cigarettes a family uses are made in India or in Europe, whether the tobacco used is eaten or smoked It will make the task much more elaborate, and I do not think it will be practicable in all cases

Q—Would it not be practicable to say that the tobacco tax and the salt tax hit the whole population and the total of the salt tax is so much per head, and that imposes a burden to the extent of so much on everybody?

A—You assume that it hits the poor man as much as it hits the rich man We can get the percentage distribution expenditure on salt from the middle class family budgets, when available, as we do from the family budgets of the working classes; and presumably if everybody eats the same amount of salt, it will represent a very small fraction indeed for the middle classes But salt is an easy case to take The difficult case is to find out whether any given commodity is imported or home produced

*Witness communicated by letter that, taking the mid-class value of Class I in Table I of Appendix W to the Bombay Census Report as Rs 20, and the mid-class value of Class XVIII as Rs 900, the arithmetic mean *per capita per annum* income values of the families worked out as follows —Gujarat Rs 125 3 Konkan Rs 99 3, Deccan Rs 135 4, Karnatak Rs 136 0, Sind Rs 194.0

Q—Of the articles that are consumed by the poor people the principal ones are cotton goods and kerosene oil, and both are taxed Is it possible to arrive at a figure per head of the population and how the tax on these affects the poor man?

A.—It is possible in the case of kerosene oil, but it would be difficult to find out the figure in regard to cotton goods, because clothing includes a number of different items

Q—Would it not be sufficient to say that the customs duty on clothing amounts to such and such a figure, the cotton excise duty amounts to such and such? These two together give something per head of the whole population The poor man's taxation items come to so much with the result that he would pay the same per head as everybody else?

A.—He would not in the case of clothing

Q—Not if you confined your calculation to the coarser classes of goods?

A—If you confined it to the very coarse classes of goods, the poor man would probably pay more than the higher classes, but it will be very difficult by means of family budgets to go into such minutiæ as that

Q—Could you not get from the family budget the amount that certain classes pay as a tax? If you can get that, then you will arrive at the distribution per head of the class that pay a particular tax.

A.—I think the collection of family budgets would go a long way towards approximating some distribution of that kind I should hesitate to say that it can be got out exactly. It will certainly enable us to know certain salient facts It would be of the greatest importance to show whether the quantity consumed per head in the higher classes is the same as the quantity consumed by the working classes But I am referring now to the second class of budgets mentioned in my written answer. And the collection of detailed budgets is an extremely elaborate thing We maintain three Lady Investigators to collect these budgets They are paid Rs 150 per mensem each A good worker can get about 5 budgets in a week. So you will have to keep a big establishment if you wish to get detailed budgets from the mofussil on the same scale as for Bombay You cannot have a specially trained staff for the present You will therefore have to rely on Government servants such as the tahsildar, who would be able to collect them through his subordinates, but he would be responsible for them

Q—Would you get reliable information through the agency of these tahsildars

A—I should think so After all the filling up of a family budget, though it is a laborious thing, does not require any technical knowledge.

Q—Is there not a great tendency to show excess of expenditure on income?

A.—That is always the case If the expenditure is more than the income, the Investigator is called upon to ascertain the cause and if no cause can be assigned the budget is rejected. The same remark can apply to a budget collected by the tahsildar. You will have to warn him at the very outset against this danger.

Dr. Hyder Q—I read this morning Appendix W to the Bombay Census Report One point is that it is very difficult to calculate the position of greatest density, because if your income classes are arranged differently, the position of the mode would be different. If the unit, instead of being made equal units, say Rs. 25 units, were made smaller?

A—If you group the observations into classes, you do that for convenience, and the larger your total sample, the smaller you can make your class intervals and yet produce a smooth curve There is no absolute criterion for fixing your class intervals. You fix it for convenience

Q—If the classes were arranged differently, do you get the position of the mode quite different?

A—You have to try different arrangements of class intervals in order to see where the mode lies. Moreover, if you smooth the curve you can reduce the mode to an exact figure. If you have a continuous series and not a discrete series, the mode is an exact number.

Q—As regards the samples collected by Mr Chitrao, do you place reliance on them?

A—Yes.

Q.—The area was a purely rural area in the Carnatic, I think.

A.—Yes.

Q—In giving the number of families which do not pay taxation, you say that out of 202 families 62 pay no taxation, and then you specify the number of families which pay different percentages on their income This is for a purely agricultural area and don't you think that it is too much to say that there will be 62 families paying no taxes?

A.—I do not think so because of the agricultural labourers. I think I have given the occupations in the case of Mr Chitrao's return. One could pick out the occupations which pay no taxes (After looking into the Census Report). All except those that are included under agriculture will not pay taxes, namely, sheep rearing village servant, trade, priest and begging, begging, labour, artisans, artisan and labour, labour and trade, prostitute—all these would not pay taxes *These come to 64 families* *Taxation only means direct taxation* I should not have thought that in a village of 202 families there would have been less than 60 that paid no taxation

Q—One other point In your definition of "income" you say that income means net income after deducting the cost of cultivation, business expenses, etc, but not taxation which is provided for under expenditure I would like to know how your people calculated the cost of cultivation

A—I do not know how they calculated it, but I can say how I wanted them to calculate it

Q—What things are included in the cost of cultivation?

A—Labour on the fields, provision of seed and such proportion of the maintaining and upkeep of cattle, carts and so on as is done only for the sake of cultivation, for instance, bullocks used entirely for ploughing These were all to come under the cost of cultivation

Q—Labour hired as well as the labour of the cultivators themselves?

A—Hired labour, yes But so far as the labour of the cultivators themselves goes, I would not personally count that as assessable in terms of money as cost of cultivation

The President *Q*—May I try to sum up the results of this discussion? As regards the general estimate of the wealth of the country as a whole, do you consider it is a thing that should be made?

A—Yes, I do

Q—For what purpose?

A—For comparing the production in India with the production of other countries, and I suppose from your point of view for the finding out of what proportion the total taxation levied bears to total production

Q—Is it a constant or a variable figure?

A—That is for you to decide.

Q—Granted that it has to be made, how would you suggest it should be made if you were in charge?

A.—I should use the same method that Mr Khambata has used after consulting the experts in the various lines of production, and I have suggested in my written notes that you might supplement it with an estimate of production for village industries—the production of artisans—arrived at by sampling

Q—That is only a proposal for filling up one of his assumptions. He assumes 4 annas a day

A—I should scrap that entirely and proceed by a method of sampling As a matter of fact, that particular figure I believe to be ever so much too low.

Q—But, generally speaking, you would consider that something satisfactory can be arrived at by pursuing those methods

A.—I do not see any other possible methods to pursue

Q—You would not consider it advisable to incur the expense of a complete census of production and wages census conducted by a special staff?

A.—A complete census of production, as I have pointed out in my note, would, having regard to the character of production in India, practically be as big a thing as the general population census which cost in the Bombay Presidency alone over 5 lakhs.

Q—You would not consider it worth while to take all that trouble.

A.—I would not consider it worth while, especially for this reason, that in a general census of production, your production figure is bound to be biassed on the lower side whereas if you take only a series of samples carefully taken by selected men and carefully checked, you may be able to get correct figures

Q.—As regards an estimate for our own purposes, what we have to consider is not only production but distribution Can you give us any help as to the method by which we should arrive at the question whether each particular class is paying its fair share of existing taxes?

A.—I would only suggest the collection of family budgets, but I do not know who is going to collect them. Whether the Government of India will collect the budgets through the officers of Local Governments I do not know. Whether Local Governments would collect them if the Government of India asked them I do not know either. I think the Government of Bombay would, because they have in existence an office which could tabulate the figures

Q—Can we arrive at any sort of general picture by using such intensive inquiries of that sort as have already been made?

A.—I do not think so, personally. Most of the intensive inquiries relate to particular communities in particular localities and are not generally applicable to the whole population. The family budgets collected by me in the census, which we have been discussing to-day, were collected entirely as a *parergon.* I had to keep down the cost. I had a comparatively poor staff to tabulate the results and the district officers were not able to take very much interest in the matter. They recommended the names of certain correspondents and left it to me to correspond with them The men who worked for me were all graduates I have not got their names with me now, but Dr Paranjpye knows a good many of them by name. We can get the same type of persons again. But it would be a question who is going to organise and tabulate I do not know if the Government of India want to do it.

Q—We want to know what is the best thing to recommend to the Government of India apart from what they want The question is what is the best way of arriving at it

A.—My own suggestion is to collect a very large number of simple family budgets—so simple that they can be tabulated on Power's tabulating machinery —in order to arrive at the distribution of private incomes for particular occupations and at the group distribution of expenditure under certain heads, because, even if you have not got the very detailed items on which the amounts are spent, still if you can give the group percentage expenditure on food, clothing, fuel, rent and sundries, the ordinary five heads, you can tell pretty well whether any class is or is not favourably off. If a particular class is really poor, the percentage expenditure on food alone will come up to a very high figure. In the extreme case a man will spend the whole of his money on food rather than starve. I suppose that in the case of the poorest beggars 95 per cent at least of their income is spent on food If you analyse this very large mass of family budgets by occupations and find that in one occupation people are spending not more than 45 per cent of their total expenditure on food, you would know that they were very well to-do The second desideratum is to get a few only of the intensive budgets in order to arrive at a theoretical budget for normal subsistence for each particular class. In the case of the poorest class it becomes equivalent to the minimum of subsistence, but for the

trading community—the ordinary trading community, excluding from consideration very big employers of labour or big commercial concerns—you would have to fix the theoretical budget not as low as the subsistence minimum but at the minimum which they required to keep up their standard of living, which would be ascertained from the budgets collected. It is only a question of who is going to pay for tabulation.

Q—Would not the fact that the inquiry was made for the purposes of taxation inquiry be apt to colour the results?

A.—It might, I admit But I think if you get the right type of men working at it, it would not.

Q—You don't really mean by "good men" well paid men?

A—I would not pay anybody anything except for tabulating the results These honorary workers that I had were not paid a single pie. Tabulating can only be done by a paid staff I suggest that these simple budgets be collected through honorary correspondents and the intensive budgets through the revenue establishment and they need not be paid anything extra for collecting them. They would do it as part of their duties which are from time to time put upon them They might find it amusing Some of them would rather enjoy it After all, if you ask any particular tahsildar for budgets for the middle classes, defining the middle classes, he would probably start with his own Then he would probably ask his head clerk and one or two leading traders.

Q—What is your experience of budgets prepared by officials in that sort of way in connection with the salary inquiry? Did anybody show an income in excess of expenditure?

A—You would warn them against that You will say that budgets would not be accepted if income did not cover expenditure unless reasonable explanation was given

Q—About the general scheme of statistics, we have been told that the Director-General's Office is merely a compiling office

A—Yes

Q—Yours is an office of quite a different class?

A.—We collect our own figures

Q—And undertake to explain them and be responsible for them?

A.—Yes But we also examine other people's figures For instance, in our inquiry into agricultural wages, we were working on material available in the Director of Agriculture's office

Q—If you were asked to advise upon methods upon which the statistics of India could be improved, especially statistics relating to wealth and taxable capacity can you give us any lines on which you will proceed?

A—I do not think we would have information available in our office in Bombay to enable us to give an opinion of that kind We could advise about such statistics as actually come under our notice In the Labour Office we have no information, for instance, as to how they got their figures of production of agriculture in Bengal We have no experience of Bengal

Q—Is it not desirable that the general statistics should be capable of explanation and defence just as yours are?

A.—Yes Any figures that are produced should be explained and should be capable of defence

Q—Would an office of your type in different provinces be able to effect that?

A—I strongly believe that every province ought to have a bureau of economic statistics. Even the Labour Office in Bombay is not officially recognised as a general bureau of economic statistics We are supposed to collect statistics only relating to certain particular aspects of the economic life of only one section of the people. Only, every now and then, we spread our net a little wider The Labour Office is gradually developing into a Bureau of Economic Statistics

19th December 1924.

Delhi.

PRESENT:

Sir CHARLES TODHUNTER, K C S I, I C S, President
Sir PERCY THOMPSON, K B E, C B
Dr R P. PARANJPYE
Dr L K HYDER, M L A.

Professor C. N. VAKIL, M.A., Department of Economics, University of Bombay, was examined.

Written memorandum of Prof. Vakil.

A SCHEME FOR AN ALL-INDIA ECONOMIC ENQUIRY

1. The existing material in the hands of the Government, though valuable, is defective Compilation of available figures in a suitable form will mean an extension of the existing estimates of the wealth of India The details of the estimates made by Government in 1881, 1901 and 1911 are not published. Along with the non-official estimates which are available, if these are published, the defective nature of such calculations will be easily seen They are quite important in themselves But they are bound to be mere averages based on defective statistics or even guess work A correct idea of the real economic condition of the people cannot be obtained from these estimates

2 What is required is a first hand investigation in a sympathetic spirit on the spot in the remote villages of India and also in the industrial centres. The nearest approach to such an inquiry was made by Government in 1886 This inquiry, known as the Dufferin Inquiry, was, however, treated as confidential and not published. At this time, when there is a universal demand for an Economic Inquiry, the Government should at once publish in the first instance the details of the earlier calculations referred to above as well as those of the Dufferin Inquiry

3. The ideal inquiry would be to make an economic survey of each of the thousands of Indian villages and to correlate the facts afterwards.

This may mean considerable time and expense The next best thing would be to be satisfied with a larger area as the unit of inquiry, *e g*, the Taluq It would not be proper to take a still larger area as the unit.

I say this with experience of both kinds of inquiries One of my students has recently made a detailed economic survey of a village in the Konkan under my guidance This was accepted as a thesis for the M.A. degree by the Bombay University and was highly praised by the examiners. This is in the press

I was a member of an Economic Inquiry Committee appointed by the Gujarat Branch of the Bombay Central Co-operative Institute to investigate into the conditions of the Pardi Taluq in the Surat district. The Committee toured in the Taluq in May last; the report is being drafted and will soon be available.

The Organisation of the Inquiry.

4. The following organisation may be suggested :—

(a) There should be an All-India Committee finally responsible for the whole work

(b) There should be Provincial Committees to co-ordinate the results of the inquiry in each province.

(c) Below these there should be Divisional Committees. The division need not be the same as the existing revenue divisions Those districts whose economic life is likely to be common in some important manner should be grouped as divisions

(d) Below these should be District Committees;

(e) and the Taluq Committees.

(f) Towns and Cities which are centres of industry other than agriculture should have separate committees

The Composition of the Committees.

5 The following composition may be suggested —

(a) The Taluq Committee may consist of three members —(1) non-official familiar with the conditions and people of the Taluq; (2) non-official belonging to another district, but speaking the same language; (3) an official belonging to the Co-operative or the Agricultural Department

The agency of the Revenue Department to be at the disposal of the Committee, but an officer of that Department should not, as a rule, be on the Committee.

(b) The District Committee to consist of (1) non-official representatives of the Taluq Committees and (2) a few official members The former to be in the majority

(c) The Divisional Committees may be organised in a similar manner.

The number of members in the case of (b) and (c) may be five

(d) The Provincial Committees to consist of (1) non-official representatives of the other committees, (2) non-official representatives of the Legislative Council, (3) officials and (4) at least one member with a knowledge of Indian economic conditions The number of members may be seven

(e) The All India Committee should similarly consist of (1) non-official representatives of the Provincial Committees, (2) non-official representatives of the Legislative Assembly; (3) officials and (4) a few experts with a knowledge of Indian economic conditions The number of members may be nine.

(f) The Town or City Committees may consist of (1) a representative of industry and commerce, (2) one of labour; (3) one municipal officer with experience; (4) Government officer, and (5) an economic expert.

The Functions of the Committees

6. The results of the Inquiry will depend on the work of the Taluq Committees. The Taluq Committee should tour in the Taluq and make first hand personal inquiries from the villagers about their economic life and condition At least one-third of the number of villages should be visited by the Committee From the remaining, people may be invited to meet the Committee at a suitable place.

In addition to the existing information regarding the Taluq in Government records, the new information thus collected should be arranged in a proper form to be settled beforehand Besides collecting information in this way, the Committee should also make their own observations and recommendations in the form of a report

The City and Town Committees will in a similar manner make first hand inquiries in the industrial areas.

The functions of the other Committees will be to co-ordinate the results of the Lower Committees and advise on matters of difficulty. The report of each such Committee will be a document giving the most complete idea of the economic life and condition of the area with which it is concerned

The main plan on which the Committees at the bottom should work will obviously be determined by the All-India Committee in the first instance The Provincial Committees may make suitable additions, if necessary. The Lower Committees should work within the plan in the first place, but should be at liberty to make other relevant inquiries and observations

The Indian States

7 The Indian States should be requested to undertake similar inquiries simultaneously.

Publicity.

8 All the results should be published and the inquiries should be carried on in public

Advantages

9. (*a*) The required material for a sound system of taxation as well as for proper schemes of economic development will be collected.

(*b*) The whole machinery of the Government will be utilised.

(*c*) A large number of non-officials will have an opportunity to study first hand the real facts about the economic life of the country, and this will have a great educative effect.

(*d*) The work will go on simultaneously all over India, and require less time In proportion to the results which the inquiry will yield, the expenses will not be great.

(*e*) It will give an authoritative record which will not be disputed if the inquiry is conducted in the right spirit with a view to find the truth.

Prof Vakil gave oral evidence as follows :—

The President. *Q.*—You belong to the Department of Economics in the Bombay University What is your special appointment?

A.—I am the second professor there

Q—You are the author of a book called the "Financial Developments in Modern India"?

A—Yes. I have also written a small book called "Our Fiscal Policy" which was published two years ago

Q.—You have been good enough to give us a scheme for an all-India economic inquiry. You say that the existing material, though available, is defective May we take it that it does not afford us sufficient material for making an accurate estimate?

A—No, it does not afford sufficient material

Q—Have you got any particulars of the Dufferin Inquiry?

A—This inquiry was not conducted exactly in the manner that I have suggested. The Government sent round certain suggestions to their Revenue Officers The inquiry was undertaken in view of the allegations of Sir William Hunter and others which were to the effect that about 40 millions of people in India were going with one meal per day. In answer to those allegations and similar other criticisms from the public, the Government instituted this inquiry in 1886 or 1837 and all the Revenue Officers in their respective divisions were asked to supply particulars to certain questions with their own remarks. In some cases family budgets or the estimates about the standard of living were also

calculated. I have given some figures about them in my book Some idea as to what the Committee did will be had from page 520. In the case of certain districts of the Bombay Presidency the Dufferin Inquiry Reports gave the minimum and the maximum standard of living In that standard of living they included only food, stimulants and dress About the same time Sir David Barbour's estimate of the average income per head was published, which was Rs. 27.

Q.—What do you mean by the maximum standard of living?

A.—I have quoted them as I found them in the Dufferin Inquiry Report. That report will be able to throw more light on this subject Probably in the years in which they made this investigation they took only a few typical instances. In certain cases they found that certain people were carrying on with Rs. 35; in others they found that certain people were carrying on with Rs 46 The minimum standard that was in vogue at that time was usually more than Rs 27.

Q.—Your statement only goes to show that one of the two estimates must be wrong One of them found the average income to be Rs. 27, the other found it more

A.—The difference is this The average of Rs 27 was for all-India The higher figure is for certain districts of the Bombay Presidency It may be that the Bombay Presidency is better off than the other provinces of India

Sir Percy Thompson. *Q.*—Is not the difference due to the fact that the Rs. 27 included children whereas the other one includes adults?

A.—The Rs 27 estimate includes all individuals, children, women and males Even then there is the disparity between the two

The President *Q.*—Supposing the Rs. 27 is for a man and his wife and three children, how would you reckon the wife in proportion to the man and the children?

A.—It would certainly vary from place to place The figures that I have given are not the final figures and I do maintain that further inquiry is necessary.

Q.—In your scheme you propose to make an inquiry into one-third of the villages in India. Is there going to be an intensive inquiry for one-third of the villages? Is the Committee expected to go into the family budgets and so on?

A.—That would be an ideal thing if it could be managed But looking at the size of the country and the obvious difficulties that will have to be faced, I have suggested a less extensive inquiry We need not take the trouble to go into the details of family budgets I could give you a rough idea as to what we did in the Parli taluk In the first instance, we collected all the information that was available from the Revenue Officers of the Government Then we met the officers of Government such as *Mamlatdars* and even approached the Collector's office and obtained the necessary information Then we prepared a sort of questionnaire We received about 100 answers for the whole taluq That was not quite sufficient but it was something to go upon. Then we went round the villages and called various important persons representing both the *soucars* and the farmers and the people belonging to various occupations Then we went on talking with these representatives more or less in an informal fashion If you talk to the villagers in a formal way they become upset and do not answer in the right way After talking to them for several hours we certainly got a very good idea about their condition We did not go into the details of each family. We tried to get out the typical family budgets and the expenses of cultivation If any irrigation was being done or anything new was being undertaken, we went to the spot and tried to find out what they were doing, in what manner it was defective and how it could be improved and so on We also invited the labouring classes and tried to find out their point of view also

Q.—Would an inquiry of that sort give you an idea as to the truth of the statement that a very large proportion of the population is habitually living on insufficient food?

A.—That statement could be verified by this sort of inquiry. It would give us a clear indication as to what the real economic life and the condition of the people is and will also give us material to think further.

Q.—Will it give you any material for estimating the national wealth or the average income?

A.—It would certainly be an improvement on the existing statistical material that we have. The figures that we have at present are very theoretical. They are divorced from the realities of life.

Q.—You are no doubt familiar with the European ways of estimating wealth. Can you suggest any of these methods which can be applied to India?

A.—The only method that I can suggest is the census of production

Q.—But a regular census of production such as was taken in England would involve legislation and a body of reporters almost equal to the body of reporters required for the census of population.

A.—Any inquiry which would be of a more practical value than the theoretical estimates we can have now, must involve a large amount of work and an army of workers. The inquiry that I have suggested is a sort of a compromise between the theoretical estimates that we have at present and the intensive family budget inquiry which we might like to have.

Q.—Would you advocate the taking of a census of production?

A.—That would be quite desirable.

Q.—Would it be worth the expense?

A.—I have no idea as to what the expense will be.

Q.—Then you would reserve your opinion until you have seen the estimate?

A.—I should think so.

Q.—What is your view about a census of wages?

A.—There is no need for a detailed census of wages A few typical instances ought to suffice

Q.—The census of wages would involve legislation. In fact you have legislation for this purpose pending in the Bombay Council at the present moment.

A.—Yes, the Labour Office is advocating some legislation. There is a good deal of opposition to it but it is still before the Council in a modified form.

Q.—Would you advocate the American census of wealth or the Australian pattern?

A.—So far as the census of production or the census of wages or the census of wealth are concerned, the general objection that these estimates will be theoretical will remain They will not lead to very practical results.

Q.—That can only be done by a staff equivalent to the census staff?

A.—Yes.

Q.—Do you think it would be worth while?

A.—I would prefer my scheme to such a census

Q.—Your scheme, I take it, would only give us a composite picture of the condition of the country at a particular time. It would not give us a scientific estimate of the wealth or income of the country?

A.—The available figures that we have with the necessary improvements would give us some sort of estimate.

Q.—But you say that the available figures are worthless?

A.—I say they are defective but they can be improved.

Sir Percy Thompson. Q.—Take, for instance, one item in Shah's book and Findlay Shirras' book, namely, the revenue from the gross production of milk. One takes it at nothing and the other takes 310 crores It is such guess work that it is perfectly worthless.

A.—It may be so

The President. Q.—Would your inquiry help us in any way towards getting the estimates of milk production in the country?

A.—I should think so

Q.—Would you give us details?

A.—In a taluq you can have an estimate of the number of cattle with comparative ease from the Government records The people of that Taluq themselves would give you the figures of the cattle and the average amount of milk which the cattle give in those areas would also be easily available by ordinary discussion

and talk. You can then multiply the two and get the amount of milk If you want to know its value according to market rate, it can easily be done by finding out the price of milk per seer In this way we would know something more definite.

Q—Can we apply the same process to the returns of crops?

A—Yes.

Q.—Can you find anybody who can estimate a standing crop within 25 per cent of its actual outturn or with any degree of certainty?

A.—These estimates are bound to vary. Different people will certainly estimate differently as you imply But if a committee were to go round and make inquiries from various people in that area including the Government officers and the agriculturists who know their business well, I think a fairly good idea could be obtained

Q.—Is it not a fact that the figures that have been supplied so far have been found to be quite unreliable?

A—It may be so But if a somewhat more detailed inquiry as I have suggested were undertaken, the objection would be much less In the particular inquiry with which I was connected we have made some estimates and I hope to supply you with an advance copy of it as soon as possible.

Q—In a town would you propose to try to arrive at any figures of annual income?

A.—I think it would be easier to do so in an industrial area The agriculturists do not keep accounts and they are sometimes puzzled by questions which relate to their own things But in the industrial towns and cities, I think a more correct estimate can be had

Sir Percy Thompson *Q*—We have been told that if you institute these intensive inquiries all over India, the feeling would be that they have been instituted from the point of view of taxation and consequently you will find everybody trying to minimise his income and so on Do you think there is any truth in that statement?

A—It would depend on the way in which the thing is done The resolution which was moved by the Honourable Mr Sethna in the Council of State some time ago asked an investigation into the poverty of the masses and remedies for their betterment and so on If such an inquiry is started in a sympathetic spirit and it is sufficiently well known to the people that it is not intended for taxing them higher but with a view to find out the truth about their economic grievances and to suggest remedies, I think the suspicion will be removed

Dr Paranjpye *Q*—Do you think your inquiry would be on the whole more productive of results than the inquiry which has been suggested by some others by way of samples i e, making an intensive inquiry of one village out of one hundred?

A—It will be quite good in itself but I do not think it would go very far. It would be very difficult to find one typical village which would represent 100 villages It will not be desirable to select them at random

The President *Q.*—Is not sampling recognised to be a scientific way?

A—That would be the next best way. I differ from you when you say that the inquiry which I suggest will give only general impressions It will give all information of the area which you investigate, and it will also deal with the figures which are available in Government records as also with the figures which the more capable villagers can supply For example, we will ask certain villagers what their income is and how they spend it and whether they are in debt and so on

Sir Percy Thompson *Q*—You are going to get really a Census of Production by individual inquiries I should have thought that if you were going to have individual inquiries to get a Census of Production, they would have to be absolutely exhaustive; you would have to go to every village and make inquiries It will be an interminable task

A.—I know the difficulties are very great, but when a small committee is doing work in a Taluq, it might visit one third of the number of villages

Dr. Paranjpye Q.—Taking your scheme, how long do you think it will take, if you take an average taluq of 100 villages, to make the necessary inquiries?

A.—If the committee were to do work with some despatch, it should not take them more than six months.

Q.—Will 6 days be enough for each village?

A.—I am putting it roughly for the whole taluq, because some villages are very near each other, and I think six months will be enough.

Dr. Hyder Q.—You say one third of each taluq should be surveyed Now referring to the table of towns and villages, I find there are altogether 687,931 towns and villages, and if you take one-third of this number it would give you 229,327 villages, leaving alone the taluq, and the committee will have to survey 229,327 villages Don't you think that this is a colossal task to survey so many villages?

A.—If the public demand is to be satisfied in the first instance and if the real economic situation of the country is to be found out in order that real remedies may be suggested and applied, the Government or the public should not in the least be afraid of such a colossal task. As I said it would take at least six months to survey each taluq.

Sir Percy Thompson Q.—Would you say that it is easier to get a Census of Production in India than in England?

A.—It is easier in England

Q.—You know there was a Census of Production taken in England, in 1907, and it took six years to complete the inquiry In India it might certainly require a much longer time.

A.—I have not made an estimate of the cost of an enquiry of the kind I suggest, but if the Committee desire it, I shall submit it later on I may point out here that in these committees all the members need not be paid, because some honorary members will be available, who will be acquainted with local conditions and they will certainly not mind working in the areas with which they are familiar without receiving any honorarium

Dr. Paranjpye. Q.—Don't you think that men of some education would be required on your proposed committees in order that they may very fairly and exhaustively deal with all the matters you are thinking of?

A.—It will be certainly expensive, but when we leave the village and go to the taluq, the inquiry would be less intensive that way, and the expensive nature of a real intensive inquiry is thus lessened, and there will be less expense in the taluq as the unit than in the village as the unit.

The President. Q.—You say that your suggested inquiry would give you the required material for a sound system of taxation I would like you to explain how it would help us in regard to taxation.

A.—From the Government records which are available we are in a position to arrive at some estimate of the national income or production, I mean a rough sort of Census of Production is available. But for evolving a sound system of taxation, you would want to know the distribution along with production. But we have no figures relating to distribution, which could be relied upon, and an enquiry of the kind that I suggest, while it will not be perhaps complete and scientifically thorough, will give us a very good idea of the distribution of the income in the various classes of taluqs, towns and cities You will also be able to get a proper and better estimate of the Census of Production, and thus by correlating the two, you will be able to adjust your system of taxation

Q.—Would you tell us how you would arrive at the distribution from your enquiry?

A.—In each area you investigate, you will have people belonging to different classes; there will be labourers, agriculturists, *sowcars* and so on, and if you try to find how much they earn, in what manner they earn, how much they spend or to what extent they are indebted, and how the income of a particular area is divided between the different classes including the wages of labourers, you can arrive at the distribution.

Q.—You must have family budgets of everybody in a village?

A.—There will be degrees in intensity there too You may be satisfied with a less intensive inquiry.

Q—What sort of indications will you take? Will it be by the number of tiled roofs or thatched roofs in a village?

A.—If you went into a village or taluq, it would be quite easy to find out with a few local enquiries how many people are better off and how many are not. A family budget would of course be the most scientific method, but the question is whether we can afford the expense and time to get family budgets of so many people in a vast country like India. You can of course find out the condition of the people by their dwellings and in so many other ways, consumption of luxuries, and so on.

Q—Consumption of intoxicants?

A—That may not be an indication of wealth in all cases It is a luxury only in the case of some people. The labourers as a rule instead of spending on necessaries, as soon as they get some money, spend it on drinks. They don't have any surplus to spend on drinks, but instead of spending on food, clothing and so on, they reserve their earnings to spend on liquor, and as in other countries, the lower down they are in the social scale, the more they spend on harmful things.

Q—Do you say that their expenditure on these harmful luxuries is not in proportion to their income but in inverse proportion to it?

A.—That might be said roughly.

Q—You then suggest that the whole machinery of Government might be utilised for the purpose of your enquiry?

A.—I mean the revenue machinery The Collector and the District Officials will be the principal parties to help in the enquiry Their work will of course increase In fact when enquiries of any sort are instituted, Government work does necessarily increase, but it might be necessary to increase the staff temporarily to cope with the work of this enquiry.

Q.—Now I would refer you to page 244 of your book You exclude the irrigation receipts, but land revenue includes the charge for water where the land is irrigated You don't pay land revenue *plus* water rate You only pay land revenue which includes a water rate?

A.—There are water cesses in several areas

Q—But the bulk of this item is due to irrigation, and the water rate is included in the land revenue

A—I object to the method of accounting The Irrigation Department here is helping the Revenue Department The better procedure would be to credit the amount to the Irrigation Department and not to include it in the land revenue. I do not object to your charging some sort of cess for the additional facilities you give, but I am only finding fault with the system of accounts We have the land revenue which is a large figure and the irrigation receipts are mixed up When the land revenue is collected, irrigation receipts are also taken into account, and there is thus some confusion If you take the land revenue figures for a series of years, they give you a misleading idea as to what the land revenue is because irrigation receipts are also included in them. If therefore the irrigation receipts are properly kept and a separate account maintained for them, there won't be any confusion or misunderstanding I know the charges for water are excluded from the amount of the land revenue in the detailed volume which you hold, but ordinary people deal with the Statistical Abstract, and the ordinary student or reader is always confused If a classification were made showing that so much was due to the Irrigation Department and so much was due to land revenue, we could certainly have no objection whatever. There is an element of artificiality introduced in the accounts and I am objecting to that If it is made perfectly clear in the accounts that so much is due to the Irrigation Department for conferring so much benefit to the agriculturist, that may be deducted, and there won't be any room left for misunderstanding

Q—I come to page 349 You say that the land revenue is a tax on agricultural incomes If that were so, it should vary with the income If there were no income, there won't be any income tax, but the land revenue is levied whether there is income or not You would not say that a man who chose to neglect his land entirely and earn nothing from it should be exempted from land revenue?

A.—He might be, just as people whose income is below Rs. 2,000 are exempted from income-tax, so these people whose agricultural incomes are below a certain figure should be exempted.

Q.—Take an extreme case Supposing a rich man acquired a large area of land and reserved it for shooting purposes and failed to produce any crop from it. Would you exempt him from taxation?

A.—I would exempt him from land revenue, but I would levy on him an amusement tax or an entertainment tax. But I don't think it is possible to conceive of many such cases.

Q.—Well, that is an extreme case, but you have certainly many instances of good and bad farming. If you are always going to exempt a bad farmer, then you will get a low return.

A.—*It would certainly be to the economic interest of the farmer to see that* he cultivates his land better, and that he does not neglect his land.

Q.—Supposing he is told that he has to pay so much Would it not be to his interest to show that his income is below the figure levied on him?

A.—The tax will not be so heavy as to compel him to neglect his land in order to avoid the payment of income-tax. In that way, the same criticism might be applied to people who are earning Rs 1,000 and less

Q.—I was thinking of your criticism of excess profits duty I think you said that it discouraged industry and therefore it was abolished Would not your system of taxing do just the same thing?

A.—I don't think the system of taxing land which I suggest would go to the extent to which the excess profits duty went. The effect would be there, as all taxes would have some effect, but it would depend on the amount and on the rate of tax.

Q.—Now would not small holdings be likely to increase under your scheme of exemption?

A.—I know it is a very great problem. Fractionisation is one of the greatest evils and it will have to be dealt with, but I don't think that my scheme of exemption will tend to increase fractionisation. In order to ascertain the size of a holding for exemption, some sort of economic holding will have to be estimated with reference to the quality of the land There are Government records which show the amount of land which a man is holding What I mean is, if you exempt people whose agricultural income is below a certain figure from payment of a tax, if they are made to realise that the land is their own property, they will certainly take more interest in the land particularly if they know that the *Mamlatdar* or *Tahsildar* will not bother them, and the lands will improve and come to the limit of taxation gradually.

Q.—Does the land revenue bear any relation to the output of the product?

A.—It does bear some relation. That is the general estimate given by Government I should exempt all those whose agricultural incomes are below a certain figure, but the level might be different. At what point we should put the exemption is a matter for detailed consideration. The limit of taxation need not be the same in the case of agricultural income as in the case of ordinary incomes

Q.—How much would you make it?

A.—That would require some detailed consideration, and I would not hazard a guess on a point like that.

Q.—Land revenue of Rs 50, net produce of Rs 100 I believe you would not go lower than that.

A.—Of course not.

Q.—May I put it to you that that would exempt more than three-quarters of the people paying land revenue? You would hardly have any revenue left.

A.—I quite understand that. But my point is that it would be one of the ways of giving greater interest to a large number of people in land and that would lead to an improvement of the land which would be better nationally.

Q.—Supposing it does lead to an improvement. How would you then set about getting any taxation?

A—As soon as his income rises, he will come under the taxable limit.

Q—Then you would impose an annual income-tax on agricultural incomes?

A.—That is true

Sir Percy Thompson. *Q*—You are going to exempt all who pay under Rs. 50?

A.—Any figure may be taken to start with.

Q.—You will exempt those who pay land revenue below Rs 50. The President has already told you that in that case three quarters of the people now paying land revenue would be exempted. What is your proposition for putting on the tax?

A.—When the man depends on his agricultural income for his livelihood, as soon as his agricultural income comes to a certain level, he will be taxed.

Q—The President has told you that there are thousands and thousands of people who pay only Rs 10 Is their income going to rise from Rs 10 to something over Rs. 50 if you exempt them?

A—It will certainly take time It won't be done magically all of a sudden

Q—Do you really think that the produce of the land will increase five fold if you only let it off the land revenue?

A.—My point is this There is very great fractionisation or sub-division of holdings. As soon as the small people, who pay a very small land revenue, are exempted from land revenue in the manner I have indicated, they will in their own interests consolidate their holdings

Q—What is going to be the inducement to consolidate their holdings? If they consolidate their holdings, they are going to be liable to income tax

A—If they fractionise, they will get poorer. They know that very well

Q.—They do fractionise now even with the land revenue

A—I know that that evil is very great and it requires some remedies

Q—I cannot quite see how exemption from land revenue will have a tendency to consolidation, in view of the fact that if you do consolidate, you would become liable to a tax.

A—The tax would be on the total agricultural income If you have ten holdings, the tax won't be on each holding

Q—May I put it to you in another way? If you take off the land revenue, the capital value of the land will increase

A—Yes

Q—Supposing I have 3 acres and it is an uneconomic holding You say that if I am exempted from land revenue, the tendency will be for me to take on another 3 acres

A—In the first instance, it will be to the interests of the cultivator to cultivate his own land better, and if he succeeds there, the next step would be to take more land

Q—I do not follow that But I am not contradicting it For the moment I will grant that he will farm his three acres better But I *suggest to you* that the man who has the other 3 acres make him pay through the *nose for his* 3 acres Therefore, I cannot see that the mere fact that the man who is going to let it to me will take rent of the land in place of the existing land revenue will be any inducement for me to take on another 3 *acres* What I *will be* burdening myself with is rent which is equivalent to the rent which I will now have to pay *plus* land revenue which I have to pay

A—I am suggesting here that the tax should be placed on the owner *of the* land, not on the tenant

Q.—I am not concerned with that If a man wants another 3 acres, he is either going to rent it from somebody else or buy it If he buys *it*, he buys it at a price which is greater by at least the capitalised value of the land revenue If he rents it, he will have to pay rent which is higher by at least the amount of that land revenue

A.—Letting alone the small people who may be exempted, there will be people who would be, either by direct cultivation or by means of rent, possessing agricultural income of sufficiently large amounts to pay taxes.

Q—My general proposition is this that when you take off the revenue, you are taking off what is in effect a fixed charge which has been amortized By so doing, you are increasing the capital value of the land which will express itself in additional rent for this land and the man who takes it will pay an additional rent equal to the land revenue and that additional rent will just go into the *pocket of a private individual instead of going into the pockets of the State.*

A—I would not mind that because when the general wealth does increase, it increases other sources of revenue

Q—Do you think that is good? What is happening in Berar? There the land revenue bears an extraordinarily small proportion to the real annual rent of the land The result is that your cultivator or landlord, as soon as the letting value of the land rises to a sufficient amount, just lets the land to somebody else, sits down and does nothing, living on the difference between the land revenue he has to pay and the rent that he gets on a lease of the land That state of affairs would arise earlier if you take off the land revenue.

A.—There would always be instances under any scheme of certain people behaving like absentee landlords.

Q.—You are encouraging absentee landlords.

A.—I do not agree. Though there will be some such cases, there will be many others who would do something else and add to the national wealth.'

Q—May I just take it a little further? The impression I gathered from reading your book is that land revenue is a source of considerable economic trouble

A—Yes.

Q—I take it you agree, whatever you think about the way in which land revenue is administered, that it is at any rate less than the economic rent

A.—Not in all cases.

Q—Generally speaking, it is less than the economic rent, because, if it were greater, the tenant would not cultivate the land You must assume that it is less than the economic rent. How is the tenant worse off than the tenant in England who pays an economic rent?

A.—I do not agree with the assumption Economic rent does not exist in some cases

Q—What do you mean?

A—The Indian farmer, who is the actual cultivator, and who is paying rent, does not find economic rent existing in his case

Dr. Paranjpye *Q*—The cultivator surely pays economic rent Otherwise somebody else will pay.

A—Very often cultivation changes hands at the end of the year. He finds it difficult to carry on

Sir Percy Thompson *Q*—That is why economic rent is being defined as something which is the difference between the value of the land and the value of the land on the margin of cultivation In England the landlord would be absorbing the whole of that difference Here Government does not propose to absorb the whole of that difference It does not take the whole of the economic rent. Therefore, how is the Indian tenant, who does not pay economic rent, worse off than the English tenant who does pay economic rent? How can land revenue, so long as it is less than the economic rent be responsible for all these evils of what you call the bad economic condition of the country?

A.—There is a fundamental difference from my point of view. Economic rent in the English sense does not exist in the majority of cases here.

Q—Did I define economic rent wrongly?

A—Not wrongly. But the way in which we understand economic rent, as English economists have described it and as you have defined it, does not as a rule come into the hands of the cultivator in India. Only part of it comes.

Q—You must admit that the rent here is less than the economic rent in a large number of cases I cannot see how all these evils flow from it unless they flow with greater intensity in England where the whole of the economic rent is absorbed by the landlord

The President. Q.—I would suggest, on the other hand, that the cause of these frequent sales of land lie not in the excessive land revenue but in its being so low that a constant succession of intermediaries make a profit out of the land.

A.—There are cases in which land changes hands because it is profitable

Q.—And at a constantly increasing price

A —That is true also. There are a good many other cases also at the same time where the condition of the cultivator is bad.

Q.—In connection with the pressure of land revenue, you say it is 50 per cent of the net produce.

A.—Yes, as a rough estimate

Q.—Can you tell us any place where it amounts to half according to the Settlement Officer's figures? I have here figures for seven recent settlement reports There is only one in which the land revenue paid—and that on dry land—amounts to as much as 48 per cent of the net produce and it goes down as low as 20 per cent.

A.—That may be so But I am quoting only the general rule laid down by Government It is not my calculation

Q.—You are also aware that in many cases a limitation is put on an increase in re-settlement?

A.—I know.

Q.—The imposition of a restriction like that makes it impossible for the full 50 per cent to be levied

A.—It may be less in certain cases I quite agree

Dr Paranjpye Q —Are you acquainted with the letting of land in Gujarat?

A —Not fully.

Q.—What is the amount of the letting value of land in Paidi Taluq compared with the land revenue in that taluq?

A.—I would supply you with the exact figures later My general impression is that the condition there is bad It is one of the very bad taluqs Instead of quoting from memory, I would supply the exact information to the Committee as soon as I can

The President Q —On page 372 of your book you make some deductions from a table of land revenue per head of population Can any deduction be derived from a table of that sort? Land revenue must depend on the productivity of the soil, not on the people

A —Quite so These are figures culled from Government reports

Dr Hyder Q —Land revenue per head of the population calculated in this way would give us a misleading figure Not everybody pays land revenue The real incidence of land revenue would be different if you divide the total payment by the number of people who actually hold and cultivate land and pay land revenue

A.—That would be a better way of calculating the incidence of land revenue Instead of going into such details what I have done here is simply to put together figures which were readily available in Government reports The only idea there is to show the inequalities between province and province

The President Q —Do they show inequalities between province and province?

A —I think they do

Q —One province has a large area of irrigated land, another has a large area of desert

A —They would be subject to improvement The figures nevertheless show the general tendency If a calculation were made on the lines suggested by Dr. Hyder, it would certainly be an improvement on these figures. But the inequalities between province and province would remain. Take Bengal and Bombay The inequality is there You cannot dispute it.

Q.—I do not think it will give us any result of great value if we base it on population You could easily imagine an extreme case

A —I quite agree that the figures are defective.

Q—On page 374, read with table 27 on page 586, you say that 4 crores of provincial rates have been remitted, and the rates have been reduced from 4.16 to 0 4 I think you are referring to Sir Edward Baker's Budget in which he remitted certain village cesses The rates that are applied to the services of local bodies have not been remitted

A.—In this table I have taken provincial rates which are included in the Government of India accounts The Local Boards certainly charge rates. Their accounts are separate, and I think their rates would appear under the local finances

Q—I can trace no remission of 4 crores.

A.—I know that the table as it stands shows some discrepancy in that way. It is not an entire remission

Q.—By provincial rates, I think you mean the anna in the rupee which is collected by the District Boards. Instead of that having been reduced, I think, it has been increased.

A.—If I have been led into that inaccuracy, it is due to somebody in the Finance Department probably, who has given these figures in the Financial Statements. I am sure they tally with the figures given in the Financial Statements.

Q—You have given Government credit for remission which they did not make

On page 396 you speak of the burden on the middle class. What do you regard as the middle class income?

A—It is very difficult to give a definition. There will be difference of opinion. I should think those getting an income of between two to six or seven thousand rupees

Q—Rs 1,000 to Rs 2,000 would not be middle class?

A—They will be a bit lower down in the scale They would not be quite poor but they would be for the purposes of the income tax. When I suggest certain exemptions and abatements, I mean that those with an income of roughly between 2 and 7 thousand deserve certain consideration

Q—Is not the graduation comparatively low on those classes

A.—It is comparatively low, but even then, I believe the pressure is high enough

Q—Take from Rs 2,000 to Rs 4,000 The percentage is 2.6

A.—I do not dispute the percentage My complaint is about the total burden.

Q.—But you lay stress specially on the middle class The middle classes pay 2 6 whereas a man with an income of a lakh pays 39 per cent.

A—The middle classes in addition to paying income-tax, pay also customs duty when they purchase certain things which are liable to customs duty. The total amount which they contribute to the State is a greater burden on them than in the case of the richer people.

Q—I thought you were complaining of the scheme of graduation.

A—If I were in England, if my income is Rs 7,000 and if the minimum is Rs. 2,000, the Rs 2,000 would be deducted from the Rs. 7,000

Sir Percy Thompson *Q*—I think you are under a little misapprehension. You can have a scheme of graduation in two ways. Up to 1920, in England, the scheme of differentiation was done by charging at different rates on different quantities of income In 1920, on the report of the Royal Commission, that was altered They made the graduation simply by deducting a fixed quantity from the income, whatever it was These are alternative methods But you have got the scheme of graduation all right in India

A.—I would like the income to be taken as a whole In the joint family system that is mostly prevailing here, what happens frequently is that in a family of about 7 or 8 or 10 people, one man only is earning and he pays income tax on the whole of it In the illustration I gave, supposing I earned Rs. 7,000, I have to pay income-tax on the whole amount. No deduction of the sort I have mentioned is made. And the burden therefore on the middle class people is rather heavy. They have to support a large family of 7 or 8 members and the earning member is only one.

Q.—You can graduate to any extent you like by varying the rates according to the different rates of income You can also graduate by not varying the rates at all but by making fixed deductions of Rs 2,000, although it is not necessary to have that particular sum Do you think the rate is too high?

A.—These would be two different methods of graduating but they may be combined if necessary

Q.—But there is no use in combining these two methods because both will give the same result

A.—Apart from the methods, I do believe that the pressure upon the middle classes so far as the income tax is concerned is heavy.

Q.—But it does not lie with you to complain that the Rs 2,000 is not deducted?

A.—I have given it only as an illustration of the manner in which the grievance may be removed

Q.—I would suggest that the proper way to tackle this problem is to reduce the rate

A.—I would accept it as a good alternative I quite accept the validity of the two methods.

The President *Q.*—You think that the exemption of Rs. 2 000 is too high. The exemption limit in other European countries except England is much lower.

A.—I would leave the limit as it is for some years to come

Q.—But your exemption to the agriculturists would be some thing less than Rs 2,000?

A.—I have suggested this for the simple reason that they would be in the villages where prices of the necessary articles are probably lower and consequently their expenditure and standard of living would also be lower Their subsistence limit is lower

Q.—Is not the English exemption limit also based upon the subsistence limit?

A.—I do not know how it has been arrived at.

Q.—I take it that a man can subsist on less than Rs 2,000 in this country?

A.—It would depend on the size of his family and his commitments

Q.—But the general complaint is that the one man who has escaped the income-tax is the middle class man on Rs 2,000 You must have read the complaints that were made in the Assembly that the people who ought to be taxed are the *soucars* and so on who are earning from Rs 500 to Rs 2,000

A.—That complaint may be taken into consideration in the case of *soucars* I do not mind it

Q.—You are in favour of making an allowance for families?

A.—That is very necessary.

Q.—It has been suggested to us that that would involve inquisitorial visits which the people would resent very much

A.—I do not think so Those who make more than Rs 2,000 are likely to be educated men and should be able to understand their needs better and they would not mind telling other people the number of dependents that they have.

Sir Percy Thompson *Q.*—The difficulty is this In England, where that scheme has been introduced, you have always an immediate check because every birth has to be registered Here you have not got a complete system of birth registration

A.—We have a fairly good system of registration Some limit as to the number of dependents that may be allowed may be laid down Supposing a man has a widowed mother, you cannot possibly object to her as a dependent.

Q.—It has been suggested that the verification of these particulars by Income-tax Officers might cause real resentment

A.—I should not think so

The President. Q.—Please see page 456 of your book. Later on you propose further increase in the Customs revenue

A.—I say 'if necessary.' I know that there ought to be some limits in the case of Customs duty. If the Customs revenue is increased very much it might defeat its purpose. This limit may have been reached in certain cases, but it has not been reached in all the cases

Q.—Has not the general enhancement led to considerable difficulties?

A.—It is for this reason that I have suggested that this source of revenue should be reserved only for emergent occasions, i.e., when the Central budget has to be balanced or the provincial contributions are to be done away with.

Q.—You are no doubt aware of the American customs. Do you think it is a sound thing to have the Central budget dependent upon such a fluctuating item of revenue?

A.—This would not be the only item on which the Central budget would depend. It would also depend on income-tax

Q.—That also depends on trade which fluctuates in this country?

A.—These are the two big sources on which the Central budget would depend. Surely some remedies can be found when there are special emergencies. I would not suggest that the Customs duty should be increased to the maximum limit in normal times. It might go to the maximum limit in abnormal times.

Q.—Please come to page 465. Have you any evidence that the quantity of salt available for consumption is inadequate for health, i.e., people receive less per head than is necessary for human health? I believe something like 16 pounds per head has been estimated as the quantity required for human health. I am not quite sure of my figure but that is what I recollect

A.—The consumption per head is much less than 16 pounds so far as the figures before me show. The quantity of salt consumed is published by Government and you have got the population figures. So you have to divide one by the other. I have given figures for British India in Table 32, page 597. The figure there is below 16 pounds and it is decreasing

(Dr. Paranjpye calculated the figures from Government publications and said that the average just comes to 16 pounds.)

The Witness.—That is all right for 1921. I have got here averages for certain five yearly periods

Dr. Paranjpye. Q.—In fact during the war period the amount consumed will be rather more except for the last year, 1920

A.—I am not able to say exactly how much was consumed during the war. But if the 1923 figures were taken, it might be less because the duty was so high in that year. Those figures are not yet available

The President. Q.—Please see page 479, Excise. Have you verified your statement that the consumption has increased faster than the increase in the population? (Certain figures from Madras were quoted which showed that this was not the case.)

A.—The Madras Presidency is perhaps more sober

Dr. Hyder. Q.—I raised this question in the Assembly and I think the answer given to me was that however much you may increase the excise duty there is no decrease in consumption

Dr. Paranjpye. Q.—You say that the consumption increases in years of widespread famine. Can you give us evidence of that?

A.—The general evidence is the same which I had been suggesting in the earlier part of my discussion, namely, the despondent mood of the people

The President. Q.—Can you show me a famine year in which the consumption has increased?

A.—I have not got the figures here

Q.—I will be very glad to see them if you can trace them.

Please see page 485, Stamps. Has the difficulty that you refer to arisen from the want of uniformity in the rates of the different provinces? Has that been adequately met?

A.—I could not tell you that, but I think it is possible to meet it.

Q—It is a question underlying the Federal arrangements. Is it a sound thing to have rates of stamp duties fixed differently in different jurisdictions?

A.—Uniformity is certainly better in the interests of trade

Q—Please see page 502, Opium. You mention an increase of consumption from 4,000 to 9,000 chests May I know where you have got those figures from?

A.—From the Statistical Abstract Those are Excise Department figures These figures of consumption show the number of chests that are supplied by the Excise Department to the excise vendors

Q—You will no doubt agree that the opium consumption is declining rapidly

A.—The figures that I have quoted are the figures given by the Excise Department and I can only hope that they are correct figures

Q—What is your proposal about opium? Do you propose to prohibit its growth and sale entirely?

A—It must be allowed only for medical purposes

Q.—To registered consumers?

A—Yes, just as certain drugs are given to chemists under a license

Q—Would you object to the extension of this policy of prohibition to Rajputana?

A—No, I would extend it to Rajputana also

Q—How would you induce the Indian States to prohibit its cultivation?

A—That would be left to the usual way in which the Indian States are persuaded to do such things

Q—How would you stop smuggling? You are no doubt aware that the smuggling of opium is an enormous evil at the present time?

A—There should be some official control

Q—We have the official control even to-day but the smuggling is going on

A—The official machinery may be improved

Q—Please see page 534 Incidence of Taxation Who is paying all that additional taxation?

A.—Mostly the additional taxation has come from Customs and Income-tax. Those are the two sources which have contributed to the additional taxation The income-tax and customs both fall upon middle class and the richer class The lower classes also consume some articles which are liable to customs duty

Q—You mean to say that the higher classes who are paying 39 per cent of their incomes in income tax are not paying their share?

A.—Both the middle classes and the richer classes are paying It is true that the bulk of that taxation has not fallen on the poorer classes

Q—You say on page 534 that the materials for a detailed and authoritative calculation of this kind are in the hands of Government But you have told us that these figures are based on defective statistics and guess work?

A.—They would be less defective than what we have already if the Government made all these figures available The calculation is worth having It will not take a very long time

Q—Would you like the Government to make the best estimates that they can on the existing material?

A—Yes

Q—Please see page 538 How would you work your license duty on tobacco? You do not propose anything in the shape of excise duty

A.—My general point is that tobacco can bear some increase in taxation if necessary. I am not quite certain as to the way by which this can be achieved It may be excise or it may be a license duty

Q.—The Government have not overlooked that source of taxation They have often considered it but they have found it extremely difficult to solve Even economists are not prepared to make a definite suggestion

A.—That is more a matter for administrative officials than for an economist

Q.—You propose an export duty on shellac

A.—If you look at the table, you will see that India supplies most of the world demand The competition of other countries is very little

Q.—Won't China and Siam become severe competitors and if we impose a heavy tax on shellac, shall we not be injuring the trade?

A.—So far as figures go, I think I am justified in saying that we have a good monopoly of the trade in shellac, and an export duty would not be justified at all if there is a fear of competition

Q.—What about the Indian States? A large amount of shellac is produced there?

A.—Some co-operation will have to be established between the British Government and the Indian States, just as the Government have the monopoly of salt

Q.—You propose an export duty on hides and skins? Have you studied the effect of the previous export duty, and do you still think that you could impose a duty without injuring the trade?

A.—I am not emphatic on that point The thing is that the recent failure of that duty was probably due to the inability of the European countries to purchase our hides and skins When normal times come, probably the German demand which was very high before the war, might revive, and we may be in a position then to restore the duty on hides and skins The failure of the export duty on hides and skins was really due to abnormal things having occurred

Q.—Then you propose a succession duty (Page 540) How would you do it?

A.—I would leave the details to be worked out by more experienced people I have put in the paragraph more by way of suggestion I know there will be difficulties owing to the Hindu Joint family system, but they will have to be considered and dealt with.

Dr Hyder *Q.*—What is your object in imposing a duty on marriages? Is it to discourage the increase of population or is it purely for revenue purposes?

A.—I don't think it would tend to discourage the increase of population, and even if it does, as you suspect, I won't mind it I don't think the imposition of such a duty on marriages would be attended with any political dangers either, because it will be a very small tax, and people would not mind paying a couple of rupees on a festive occasion. But I know it is likely to be misrepresented in some quarters; there is always a danger of misrepresenting things whenever a novel thing is introduced The same machinery which exists now for the registration of births and deaths can enforce the payment of this duty. The present machinery registers births and deaths fairly accurately, and if it needs to be improved you will have to employ a bigger and a more efficient staff. I consider that the duty I propose would cover the cost of any improvements that might be needed in the existing machinery.

Sir Percy Thompson. *Q.*—With regard to the cost of collection, you say it is somewhat higher in this country than it is in other countries Is it very fair to include such receipts as Forest Receipts, Salt or Opium or even land registration? Is the cost high in Customs and Taxes on Income?

A.—The general observation that I have made is to the effect that, even allowing for the receipts which you have mentioned the cost of collection is somewhat higher here than in other countries So far as the particular items are concerned, the cost does not seem to be very high

Q.—Take, for instance, Forest Receipts, Opium or Salt? Is the cost of collection very high?

A.—I am prepared to exclude those.

Q.—If you exclude those, you get down to the main sources of revenue which are Customs, and Taxes on Incomes, and the cost of collection here is very little higher than in England, and therefore is your criticism that the cost of collection is higher in this country fair?

A.—The revenue from Income-tax and Customs has increased only in recent years. In previous years these two sources had a subordinate place. My criticism applies generally, because in my book I have taken a historical survey of the last sixty years or more. In view of the increase in revenue, the percentage appears smaller, but I have not really got any serious criticism to make at present regarding the cost of collection.

Dr. Hyder. Q.—Referring to income-tax, on page 389 of your book, you say there is no income-tax levied on the Government securities held by people abroad, and you recommend that there should be an income-tax imposed on such security holders. Would it not amount to a double income-tax?

A.—Yes, but I won't mind it.

The President. Q.—You are aware that certain English securities are free of income tax to holders abroad.

A.—That may be so, I am not quite sure of it. But as a greater portion of our debt is in sterling, there is a great loss of revenue to the State inasmuch as these securities pay no tax.

Sir Percy Thompson. Q.—Surely it is a matter of contract. If you issue a loan in England and agree to pay 5 per cent free of income tax, people will subscribe to it. But if they are made liable to pay a tax here will it be fair when you issue the loan free of income tax?

A.—It would probably discourage foreign capital coming in.

Q.—You are aware of the fact that a committee of economists consisting of Prof. Stamp, Prof. Seligman and others met together and came to the conclusion that when a State is issuing loans abroad it ought in its own interest to issue them free of taxation. They recommended that the non-residents should not be taxed, and if a tax was imposed in respect of interest on a State loan the tax would be thrown back on the borrowing State.

A.—My objection to it is based on other grounds as well. Recommendations have been made now and again, that it is better for the British Government, both politically and economically, to raise loans in India in rupees. Instead of raising the rupee loans, we have got larger sterling loans, and the trouble has arisen on account of exchange difficulties.

Q.—Suppose you raised a rupee loan, would you expect Englishmen to subscribe to it?

A.—Some of them do subscribe to it. Some of our rupee paper is held in England.

Q.—Is it not rather a question of making the loan sufficiently attractive by raising it in sterling to get the capital you want, because the Englishmen will know exactly what interest they would get?

A.—The only thing to do is to balance the advantages and disadvantages. The rate of interest should be taken into account, and there is also the possibility of the exchange rising or falling. So we will have to balance the two and find out whether the rate of interest would be higher or whether the burden on the exchequer would be higher, and a proper adjustment would have to be made on those lines. As a rule, a greater proportion of the loans should be in rupees, and I am not in favour of raising sterling loans.

Dr. Hyder. Q.—Please see page 389, with regard to taxing Guaranteed Railway Companies. I think the Government of India took the view that taxation should be levied on net earnings but the Secretary of State overruled that view and said that the tax should be on surplus profits. Are you quite sure that the Guaranteed Railway Companies are taxed not on their net income but on their surplus profits? Do the shareholders escape the tax entirely?

A.—I should think that practice still exists.

Q.—You are in favour of taxing shipping companies. But it would be rather difficult to bring within the scope of the income-tax authorities a company like the P. and O. which has business in all parts of the world.

A.—It is possible to find a way out of the difficulty.

20th December 1924.

Delhi.

PRESENT

SIR CHARLES TODHUNTER, K C S I, I C S, President

SIR PERCY THOMPSON, K B E, C B

Dr L K HYDER, M L A

Professor K. J. KHAMBATA, M.A., Bombay, was examined and gave oral evidence as follows:—

The President Q—You were a Fellow of the Elphinstone College?

A—Yes, for two years

Q—And you are part author of the book "Wealth and Taxable Capacity of India"?

A.—Yes

Q—I understand that you undertake responsibility for Part I Do you take no responsibility for Part II?

A—I helped Mr Shah in preparing some facts and statistics; but nothing more

Q—You won't object to answering questions on Part II?

A—So far as I am competent to answer them, I shall do so.

Q.—The first point is your very interesting discussion of the question of the inclusion or exclusion of services. You distinguish between the national dividend and the national income

A—In the usual terminology the two phrases are held to be convertible, but I suggest that a difference should be made between these two phrases and that they should be applied to different ideas

Q—Which of the two is the one from which we must draw the taxes?

A—I should think that ultimately they come from the national dividend inasmuch as the national dividend itself is the final wages fund or distribution fund from which all services are remunerated, I should think that ultimately the taxation comes from the national dividend itself.

Q—If you could imagine a community in which all the surplus falls into the hands of a money-lender, would not the services by which he acquired that surplus be taxable?

A—Quite so, yes

Q.—But you exclude his services from the national dividend

A—But the reward of the money lender comes ultimately from the national dividend itself. So much is taken away from other people and goes to the money-lender and so far taxation comes from that source only

Q—Well, when you compare your estimate of national income or national dividend with other countries, as for instance, Japan, are you comparing like with like?

A—Not exactly, inasmuch as in other countries they do not regard the census of production as the national dividend

Q—You quote such an estimate for Japan of £6 per head.

A—That is a pre-war estimate.

Q—That is a pre-war estimate of what you define as the national income?

A—I have not been able to get at the exact figures from which the calculation is made in Japan I only took the figure from Dr Stamp's article in the *Statistical Journal.*

Q—That is an estimate, I take it, of the national income. He is going on the conventional method.

A.—Yes.

Q.—And you compare that with Rs 75 per head post-war for India which is a national dividend only?

A.—Yes

Q—Japan includes services and the Indian estimate excludes services

A.—To some extent that is so

Dr. Hyder. Q.—Referring to the answer which you gave to Sir Charles Todhunter, when you spoke of the census of production, I understand, you refer to the English census of production

A.—English or American

Q—In the English census of production initiated in the year 1907, they arrived at the net output of each and every industry by calculating the total value of the goods produced *minus* the value of the materials which they bought and the work which they gave out?

A.—Yes

Q—In this net output of the industry you will agree that the goods and services were included?

A.—I should think they were

Q—Now, in the case of India, you simply refer to the production of agricultural stuff or other commodities So, the English census of production as conducted by the English authorities is not really what you have in view

A—What I am talking about is not only agricultural production I have also taken the industrial production into consideration

Q.—The point that I wish to make is this In the English census of production, the net output of each and every industry included not only the commodities in the ordinary material tangible sense but also the services?

A—Yes

Q—You are not doing that with regard to India

A—With regard to Indian industries of all kinds, the value of production includes the price of services also—the services of manufacturing them The services which I am excluding are the mere services of the professional and other classes, not the services embodied in the production itself For instance, the services of a farmer are embodied in the manufacture of his crops and so on The value of the crop so far includes the services of the farmer also.

Then followed a discussion between Dr Hyder and the witness as to whether material goods are ends in themselves or are means to some other end and as to the meaning of the term "national wealth" Dr Hyder pointed out that while Mr. Khambata had made the statement on page 6 of his book that economists have generally taken the term "national wealth" to denote only the material and tangible goods having an exchange value, Dr Marshall had defined "national wealth" on page 60 of his book as including the individual as well as the collective wealth of its members, the individual wealth consisting of (1)

material goods and (2) such immaterial external goods as are used to obtain material goods, namely, business and professional connections, etc Mr. Khambata drew the attention of Dr Hyder, in this connection, to foot-note 1 on page 10 of his book wherein he has pointed out the difference between Dr Marshall's meaning of the term and that accepted by the witness; and also to page 49 where he discusses how the inclusion of "services" would involve double counting.

The President Q—May we take it that in referring to economists on page 6, you exclude Marshall and those who take their views from him?

A—Quite so.

Q—May we now take your estimates on page 85? First of all I would like to refer you to page 65 You refer there to Mr Digby's statement on the ratio of land revenue to income. Those percentages of land revenue to outturn are quite different from those given by the Famine Commission

A—It may be so This portion of my book is only a historical resumé

Q—Then you say that Mr Digby examined the non-agricultural income in detail Can you give us any particulars as to how he arrived at non agricultural income?

A—Mr Digby made two or three estimates. In the final estimate which is printed at the end of his book he examined the commodities one by one He does not tell us how he has arrived at his results

Q—On the next page you say that there is a serious error in the counting in his book

A—That is on one particular page in the final calculation

Q—You mean to say that his addition was not correct?

A.—It is only a matter of erroneous calculation.

Q—You reject Mr Datta's formula and certain other formulæ and then you take your figures from the ' Estimates of the Area and Yield "

A—If I had proceeded to investigate province by province and circle by circle on the lines followed by Mr Datta, it would have involved endless trouble. Since the Government has already prepared some estimates on this method, I have avoided the trouble myself

Q—Have you read any criticisms of the figures that have been arrived at by that method in the reports of the Sugar Committee, Cotton Committee, Industrial Commission and so forth?

A—I do not remember them just now.

Q—Would you be surprised to learn that the Government have regarded them as very unreliable?

A—But they are the only figures to go upon What can we do if the Government has nothing better to give us than these figures? Mr. Shirras pointed out to me once that the farmer always underestimated his crops because he was afraid that if he overestimated them, God might be displeased Moreover we have introduced a column of errors to allow for deficiencies

Q—That is for filling in the gaps?

A—Yes.

Q—There you assume a figure of outturn for an area for which you have no figures on the basis of the estimates for the crops in the area for which you have figures What crop do you assume?

A—We compared the area figures of each crop given in "Agricultural Statistics" with its area figures reported in these statistics (i e, "Area and Yield of the Principal Crops in India" a copy of which witness had in his hand), and then found that there was a deficiency These deficiencies in area were examined crop by crop

Q.—You estimate that the crops grown were the same as on the previous occasion?

A.—That is so. We always take the figures of area crop by crop; and not of the total area.

The President went through the figures for different items like tobacco, fruits and vegetables, groundnuts, fodder crops, manure, milk, fisheries, and alcohol; and after pointing out the differences between the figures given by the witness in his book and those given by other economists like Mr. Findlay Shirras, Messrs. Wadia and Joshi, etc., considered that most of these figures were mere guess work. The witness concurred with the President in this view with regard to the items mentioned, and said that there were absolutely no figures to go upon.

Q.—Can you tell us how we should proceed to get an estimate of the agricultural produce of the country?

A.—In the matter of agricultural produce, we should ask the district and revenue officials from the Collector downwards to say how far in their opinion the statistics reported are accurate.

Q.—You may take it that the Government of India have satisfied themselves that the present system does not give an accurate return at all. Can you tell us by what other method we can get correct returns?

A.—I wish you had given me notice of these questions. Anyway, if the Committee wishes to take a census of production, then I do not see how, considering the limited time at its disposal, it can proceed in the matter except by asking the district and local officials to give their opinion as to what they hold to be the percentage of error in these *Estimates*.

Q.—Do you think it would be practicable to take a census of production in this country? You are probably aware that in England it took about 6 years to take a census of production, and it would probably take much longer to take a census of production in this country?

A.—We can certainly arrive at rough figures in this country, but with all the labour, time and expense, it is doubtful if exact figures can be arrived at at all. I don't think it is worth while employing a staff commensurate with that which was employed in England for taking a census of production. As regards industrial production, we have got a list of large scale establishments, and the Government might make it compulsory on the owners to give us an idea of their gross production. Legislation on the lines of that which has been introduced in the Bombay Council would be required for the purpose. But there is always the difficulty that owners would be unwilling to give the precise production figures of their establishments. As regards wages, we have got some excellent monographs on wages in some provinces, but as I have not studied that subject thoroughly I refrain from dwelling on it further.

Q.—Now have you examined the question as to what taxes affect particular classes?

A.—I am sorry I cannot help the Committee with my views on this subject either. Prof. Shah will be able to say something on this.

Q.—What sort of figures would you look for? Figures of family budgets?

A.—I have not much faith in family budgets, because even after collecting and examining many family budgets you cannot arrive at any very definite results. The enquiry into the family budgets of the working classes in Bombay was on a small scale and I don't think such an enquiry would be sufficient to give a general idea of what taxes affect particular classes. Besides that, as the majority of our people are poor and illiterate, I don't think they will be able to give us any correct figures of their expenditure. I am aware that enquiries into family budgets have been conducted in other countries, but they can have received only a very rough idea from the figures collected as to what taxation hits particular classes.

Q.—You don't think it is necessary to pursue any detailed examination of the figures of the wealth of particular classes?

A.—That should be the first step in an enquiry into taxation, because unless we know the economic position of particular classes we shall not be able to gauge the burden of taxation.

Q.—How are you going to ascertain their position? In what manner can you arrive at correct figures? Have you not in the first place to decide what taxes hit particular classes?

A.—As regards the distribution of the wealth, the income-tax figures are very incomplete. But they can give us some idea about the higher incomes.

Q.—If you find a class that pays no taxes, would you say it is quite unnecessary to worry about them unless you are going to suggest that they be taxed?

A.—That is so. The poorer classes stand in great need of relief. Looking to the figures of average income, I should say that land revenue is a heavy burden of taxation upon the agricultural classes. I cannot say exactly what proportion land revenue bears to the total income, that varies considerably with provinces and tenures. I have found out the *per capita* income of the people, and Prof. Shah guesses the *per capita* income of the lowest classes to be about Rs. 52.

Q.—Would the figures of the ratio borne by the land revenue to the gross or net yield per acre be of any use?

A.—Such figures are prepared, but I have no idea in what way they will help. I have not thought about this aspect of the question.

Sir Percy Thompson. *Q*.—Would you turn to page 200 of your book? Take the years 1921-1922. You take the total income as 23,64 crores, you take the population at 319 millions, and dividing the one by the other, your gross income *per capita* is Rs. 74. In your 23,64 crores you have excluded the non-productive services and there are quite a number of people who are engaged in non-productive services. Therefore when you are getting at the income of the producer, should you not divide it not by the total population but by the number of people who are producing?

A.—I have tried to show in ch. ix of Part I, in the course of my arguments that the value of the commodities includes the value of *all* the services rendered, just as in a boot factory the value of the final production includes the value of the services rendered by all persons from the Director down to the porter.

Q.—As regards your average income, if you take the people who are performing services which do not contribute towards production and transport them to the Andamans, you will still have the same production and a less population. Therefore, the Rs. 74 that you get is not the real income but the income after they have paid for all these non-productive services. I suggest it is the wealthier classes who enjoy them that pay for these services and not the raiyat. I therefore suggest that if you are to get at the real income of the raiyat before he has paid for those services you should divide the total production not by 319 millions but by the number of producers.

A.—That is so.

Q.—Therefore, the raiyat's income, on your own showing, will be considerably higher than Rs. 74. I make it out to be 17 per cent. higher. That adds another 12 rupees and makes his income Rs. 86.

A.—But then he does pay for those services. You have got to take the total income of the country, estimate what is taken away from the producers or the raiyats out of this, and then divide the income which is left to the raiyats by the number of raiyats. The income which is left to the raiyats is not 23,64 crores.

Q.—23,64 crores worth of goods are produced by the producers. After they have divided that up, certain of them pay for non-productive services. Take 23,64 crores and divide it by the number of producers, and you will get an average of Rs. 86 for each producer. It is perfectly true that some of them will pay away a great deal of that Rs. 86 in non-productive services. But it is the people in the higher levels that will do so and not the raiyats.

A.—There is some flaw in the argument

Q.—I suggest that the man getting Rs 86 a year won't pay away Rs. 12 for non productive services That would be done by people in the higher scales, getting 2,000 or 3,000 or 8,000 a year.

A.—I think that is a fallacy.

Q.—You say in the next paragraph "What can a poor raiyat do with possibly less than Rs. 5 per month but starve himself gradually to death". I suggest that before starving himself to death, he would rather dispense with those services. I go further and say that a man in that range of income does not pay Rs 12 on non productive services Therefore it is not correct to say that his income is Rs 74 It is something like Rs 86 on your own figures

A.—I should like to put it this way I should like to take the whole fund at our disposal and find out how much of this fund is actually taken away by the non-producers' class and how much is left to the producers' class Can we not do that?

Q.—I don't think you can Non productive services are luxuries and they are almost entirely consumed by the wealthier classes It is weighting the poorer people too much to give them a *per capita* charge on the non productive services, because they do not have those services They have very little to spend on non-productive services

Q.—Then, on page 207, in Mr Shah's portion, in calculating the net residue of the production which remains in the hands of the producers, he makes a deduction of Rs 300 crores as the additional cost to the final consumer Why is that made?

A.—Mr Shah's argument, I think, is this The producers' class produces about Rs 24 00 crores worth of commodities, out of which they have got to provide for imports, and they have also got to pay for transport and other commercial services, for which this deduction is made It actually goes away from the producers' class to the non-producers' class though some of it is within the country itself.

Q.—I am merely criticising the figure You deduct Rs 300 crores as the additional cost to the final consumer, and you deduct Rs 100 crores as the sacrifice or underpayment to the Indian producer of the exports these Rs 400 crores go to the middlemen, don't they?

A.—A certain sum does go into the pockets of the middlemen

Q.—Won't it all go?

A.—Except what is accounted for by the difference between the actual exports and imports

Q.—By middlemen I mean people who would make a charge for handling the goods. These Rs 400 crores has to be divided between 18 million people, because I see that that is the number of people who were engaged in those operations That gives you an average of Rs 222 per head Is that not very enormous?

A.—I think Professor Shah's whole argument is that for Rs 300 crores worth of imports which our producers' class finally enjoys, they have actually got to pay out Rs 600 crores worth of their own commodities

Q.—I am really trying to test whether those figures—300 and 100—are right

A.—300 is, I think purely guess work

Q.—Whether it is guess or not, he does in fact deduct that Rs 300 crores It seems to me that Rs 300 crores is an excessive deduction to make

A.—That is what he has done, however.

Sir Percy Thompson.—What I have said above is what he bases his whole argument on

(Before witness left he said he would like to point out an error on page 307 That is the portion where Mr Shah dealt with the distribution of the national dividend among the different people After the words "230,000 individuals paying Income Taxes with an average income of Rs. a whole line was missing viz, "5,000 absorb Rs 115 crores among them and support a population of 1,150,000 persons ")

22nd December 1924.

Delhi.

PRESENT:

Sir CHARLES TODHUNTER, K.C.S.I., I.C.S., President
Sir PERCY THOMPSON, K.B.E., C.B.
Dr R. P. PARANJPYE
Dr L. K. HYDER, M.L.A.

The Hon'ble Mr. LALUBHAI SAMALDAS, Bombay, was examined and gave oral evidence as follows:—

The President Q.—You are a member of the Council of State and among other things, you are the President of the Indian Economic Association?

A.—Yes

Q.—You have been good enough to read a proof of our questionnaire You are the first witness who is giving evidence on that questionnaire I may take it that you recognise, as we hope all witnesses will do, that, although we are bound to cover a very large field, we do not ask any witness to address himself to more than a few of the questions in which he is especially interested.

A.—I do not think anybody can do it You have, if I may say so, covered the whole ground and have hardly left out anything Only a man who has not [illegible] ddition some knowledge of [illegible] taxes are administered car[illegible] e whole list and I can onl[illegible] very outset I may say that I attach great importance to questions beginning from 147 under the heading of the Division of the Proceeds It will be necessary for witnesses and for the Committee to decide as to what will be the share of the Central Government and the Provincial Governments when the further instalment of Reforms is granted The Central Government is passing over its duties to the Provincial Governments and will keep most probably in its hands the work of administering the Law, Justice and Order, and will have also the charge of the Military, Foreign and Political Departments. In that case its income will have to be only commensurate to its expenditure under these heads We do not as yet know what the proposals of the Reforms Committee will be I think the recommendations of this Committee will have to be tentative till we know where we are with reference to the Reforms

Q.—I take it that your point is that we must try and say that the theoretically correct system of distribution would be one that is sufficiently elastic to be adapted to whatever changes may be made

A.—If you lay down hard and fast rules for division then they will have to be revised as soon as the new instalment of self-government gives over more work to the Provincial Governments If you want the Central Government merely for Military, Foreign and Political, then Customs or Salt might do for their purposes

Sir Percy Thompson. Q.—Supposing the functions of the Central Government were so far curtailed that only 5 crores of rupees were required for it, would the Central Government not even then collect taxes like the income tax and also the death duty if it was imposed and then hand it over to the provinces. I suggest that it is always impossible to collect income tax and death duties in the provinces because you run the risk of double taxation between the different provinces

A.—In Bombay we are feeling strongly about the income tax and if you like I may put the Bombay point of view before the Committee.

The President. *Q.*—We are concerned with the theoretically correct distribution So if you put it in general terms without raising the question of any particular province, it will be better.

A.—The principle that will have to be decided is whether the income is earned in the province where say a factory is situated or whether it is earned by the province which has invested the money.

Q.—May I take it that you are addressing yourself to Question 149 where we have endeavoured to put your position in general terms?

A.—That is a general question I believe a question was raised to the effect that income-tax should be provincialised and it was said that if a province had a big industry in its territories and we allowed the income-tax to be collected in the province where the Company was registered, then it will not be fair to the province where the factory was situated.

Dr Hyder *Q.*—Do you know of any country in which the income-tax is provincialised?

A.—I do not know.

Sir Percy Thompson *Q.*—I think the difficulty is this Most legislators charge income tax on two bases, one residence and the other the place where the income arose If income-tax is administered by the provinces you will have a large number of cases of income arising in one province and enjoyed by the residents of another province Both these provinces will put on taxation

A.—But income would not have arisen in a province which produced, say, ore or coal, for these cannot be used, unless money was found to win and work the ores. Is not the money to be taken into consideration as one of the factors of production and of the earning capacity of a factory?

Q.—Take a practical case Supposing you take the case of a barrister living in one province and exercising his profession in another Both these provinces will want to charge this barrister, one because he earns his income there and the other because he resides there In this way you will have that man charged twice over for income-tax?

A.—I do not want anybody to be charged twice, although I will not mind lawyers being charged twice (Laughter) My view is this Take the iron and steel industry The ore is produced, say, in Bihar and Orissa and the factory is also situated there The coal comes from Bengal and the money is provided by the whole country, chiefly Bombay, and the Company is registered in Bombay If the income-tax is collected by the Central Government, the difficulties of collection will disappear Perhaps the best course would be for the Central Government to collect the tax and divide it between themselves and the Provinces on a scientific basis

The President *Q.*—That is to say, you would adopt No (4) of Seligman's ideas?

A.—I accept (4) as regards income-tax. As regards Customs it is rather difficult They will have to be used entirely by the Central Government.

Q.—As regards Customs, you accept the proposition in Question 152?

A.—I think we will have to do it partly because it would be very difficult to divide the income on the basis of consumption or production, but more especially because the question of the Indian States will come in If you accept the principle that the Customs revenue is to be divided between the provinces that consume articles imported—I am talking of import duty only—then most of the Indian States that have no ports and are land locked but have to import articles, such as the States of Hyderabad, Mysore and Gwalior, will insist that they should be paid a rebate also To avoid that, the best course is to make it Central As regards land revenue, it has been provincial for so many years that we need not change it for the present I would therefore keep it provincial My reason is that land revenue is collected by the Provincial Governments and as agriculture and all allied subjects are provincial and transferred subjects, money will be spent on them by the Provincial Governments

Q.—So that to the land revenue and Customs you apply the third method of Seligman?

A.—Yes

Q.—Then we come to a rather difficult question, I mean Question 153

A.—If you accept that principle you have to accept it in the case of import duties also I know Bengal's claims for jute but I do not want to give it to Bengal simply because Bombay would claim it for cotton.

Q.—Then we come to Excise. Generally speaking, indirect taxation is Federal but here we have a peculiar arrangement under which Excise is entirely provincial. I do not know of any other country in which you have such an enormous variety of excise rates. Generally speaking, in other countries the excise rate is one for the whole country. What we have asked is whether it is practicable to have a basic rate and have the excise revenue collected through the Imperial Government?

A.—In my opinion it must be provincial chiefly because the policy as regards Excise will have to be settled by the provinces. If a Provincial Council like that of Bombay decides to do away with the whole of the duty within 20 years, that Government ought to find means of raising income to take its place. Why should the other provinces which are not so very "moral" be compelled to pay Bombay's expenses for its being "moral"?

Q.—We had better leave the liquor alone for a moment. Take opium. Is there any reason why the whole proceeds of the opium monopoly should not go to the Central Government?

A.—Opium in a sense is land revenue. Supposing we decide to do away with opium cultivation then the income will be land revenue.

Q.—The cultivator pays his land revenue independently but sells his produce to Government?

A.—That is a monopoly fixed by the Central Government. I think it might be made central.

Dr. Paranjpye. *Q.*—What about the proposed duty on tobacco?

A.—I do not smoke. So it does not matter to me.

The President. *Q.*—Supposing such a duty were levied. It is of course an indirect tax. Would you make it Central or would you make it Provincial?

A.—I am for giving more powers to the Provincial Governments. My mentality is such that I want more money for the provinces and I want the Central Government to have only as much—and just a little more—as they would require for their own work. I know I am now talking more on political grounds.

Q.—Would you approve of the second procedure in certain cases?

A.—This would be one of those cases where the tax ought to be assessed by the Central authority with the previous consultation of the local Government.

Sir Percy Thompson. *Q.*—Do you think you can apply principle (2) to income tax?

A.—No.

Dr. Paranjpye. *Q.*—What about Stamps, both judicial and non-judicial?

A.—It might be done in the case of non-judicial stamps, after consultation between the two Governments.

Q.—What would you do if the two Governments differ? You would leave the final authority to the Central Government?

A.—Yes. If you so like it, you can let the Provincial Government have the right to appeal to the Secretary of State.

The President. *Q.*—Would you approve of Seligman's proposal of a combination of processes (2), (3) and (4) which would broaden the basis of the division and enable you to transfer shares of taxation with functions without making a new distribution of sources?

A.—Yes.

Dr. Paranjpye. *Q.*—If death duties are proposed to be levied, do you think that they should be Central or Provincial?

A.—I hope death duties will not be imposed. But if that is done, I will make them provincial.

The President. *Q.*—What is the next item that you are interested in?

A.—The next questions I would like to answer are Questions 19 and 20. I have not been able to realise what sort of particular services are referred to.

Q.—We were trying to reckon the incidence of taxation on the population as a whole. Should we reckon, for instance, the taxation imposed by the Bombay Corporation? The point is that if you are reckoning the taxation of

the country as a whole you do not include generally the taxation of local bodies, which is for the benefit of particular localities

A.—It *ought not to be included Still, the taxpaying capacity of the people* will have to be taken into consideration.

Q.—You mean to say the tax paying capacity of the locality?

A.—With regard to Question No 20, I think it would be better to have one rate and then sub divide it for accounts purposes If the total sum is taken and it is allocated to specific services, then it will not be difficult to say what are general purposes and what are specific purposes

As regards statistics, speaking chiefly of agricultural statistics, I should say that they must be very carefully drawn up if they are to be of any use Question No 4 asks if I can make any suggestions for the improvement of the present methods of recording and compiling the available statistics which would not involve legislation or large expense In my opinion, unless Government is prepared to incur large expenditure, it will not be possible to collect any statistics which could be relied upon I would much rather do without any statistics than have statistics which cannot be relied on or which cannot be clearly understood The statistics now available are not reliable and are based more or less on guess work The figures of normal yield are supplied by the tahsildar or patwari who very often collects villagers in the village Chowdi, and try to gather information from them regarding the yield per acre. Instead of the present method I would advocate the collection of statistics by crop-cutting experiments over selected areas for each type of village Unless we have a regular examination by crop cutting experiments or the work is done more systematically by the village headman patel or kulkarni by actually taking figures from intelligent agriculturists books it will not be possible to arrive at correct figures The present figures are practically no good It will not be difficult for the village headmen to select two or three survey numbers in a village and ask the men to give him correct figures There are cultivators in my part of the country who keep regular accounts and who are able to give figures to the village headman as regards their income and expenditure and also the crop yield per acre On that basis the village headman might collect the figures for the whole village

Q.—Crop cutting experiments would give you the normal outturn Then you would have to find the outturn in terms of that normal for the whole area in the village?

A.—That will be much better than what is done at present

Q.—Do you think it is likely to be more accurate in the provinces that base their normal on crop cutting experiments than in Bombay where you base your normal on local estimates?

A.—The crop cutting experiments must be carried on only in some places, but figures should be collected annually for larger areas

Q.—Have you had any experience of making these experiments?

A.—I can speak of experiments made in my own State In those days our attempt was resented by the people They thought that the State had a motive behind it in getting all these results, and that motive was to increase the land revenue We had great difficulty in persuading the people to agree to our experiments I now take up question No. 7. Estimates collected in the manner suggested in question No 6 will have their own value, but I want this enquiry *to be followed up by action by the Provincial Governments in helping the people to* earn more from agriculture, because we find that our agricultural incomes compared with those of other countries are poor, and the reasons for such low incomes must be found out

Q.—That is a matter outside the scope of our Committee

A.—But your enquiry should be directed towards that end, if it is to be of any use to the agriculturist and to the country. Then I take up question No 12 The history of forest administration reveals a rather dismal tale Before the forests were reserved, people in the villages had what might be called a prescriptive right of taking gum and other forest products free of charge and selling or using the same The village people have now to pay for these products, and I should call the income thus raised a tax. The villagers contend that they had a prescriptive right to collect the forest products and that the Government merely for the sake of getting more revenue is making them pay.

Q—May I understand your position quite clearly. You say that forests were common property originally from which anybody could take what he liked?

A—Forests were looked upon as communal property

Q—Now the Government representing the community controls the forests?

A—Now the Government representing the *general tax-payer*, and not the community, controls the forests

Q—I am looking at it from the point of view of the definition of tax. I do not quite see where the element of taxation comes in

A—Forests used to be looked after and preserved in olden times by the community, and that perhaps led to their growth Now the village people are debarred from taking anything out of the forests One of the chief reasons why agriculture is said to suffer is that while formerly people used to get their fuel free from the forests, now they have to use cowdung in place of fuel, with the result that they lose all cowdung manure Naturally agriculture suffers because it is difficult to obtain even cowdung manure

Dr. Hyder *Q*—If you follow up your argument, it comes to this, that if the villagers go to the forests and cut down the trees, then there will be nothing left in the forests

A—In spite of the villagers having the right in former times of cutting the trees, the forests did grow, and as a result there were more rains than now The average rainfall is now going down in spite of your reservation of forests In former times the forests were preserved in such a way that we had more rains, but in spite of your policy to reserve the forests, we hear the cry that the normal rainfall is going down Why has the rainfall gone down during the last 20 or 30 years, though your forests are all reserved? It has been dinned into our ears that forests draw the rain—that is what we are told Anyway, as it is an [illegible] t at length Then I take up question Nc [illegible] of taxation in the revenue derived from [illegible] general question, I would like to give a [illegible] s affects industries and ought therefore to [illegible] 1920 21 a proposal was made to levy a [illegible] surcharge was to be on a very large scale and if I may say so on an unscientific basis as proposed in the Bill The Tata Iron and Steel Company found that the surcharge, as proposed in the Bill, would be such a very heavy taxation on the iron and steel industry that practically it would have to close down Consequently one of the agents of the company, Mr Peterson and myself came here and we had a talk with the Hon'ble the Commerce Member on the subject, and as a result of the discussion the surcharge was modified in such a way that it did not very adversely affect any particular industry If the Bill had been passed in its original form it would have meant a very heavy taxation on some industries

Q—Under the new scheme of the separation of the railway finances from the general finances of the Government of India, is there any element of taxation left?

A—The new arrangement has been worked out, I believe, on a scientific basis, and yet it provides—speaking from memory—for a larger income than what should be a bare return or even a commercial return After the deductions, I think something like 1 per cent goes back to the general taxpayer after provision is made for interest and depreciation Therefore I regard the 1 per cent as a tax Why should Government make money out of railway investments?

Then again as regards irrigation, I am asked to say whether I prefer the charging of a fair commercial profit I really do not know what is meant by 'commercial profit' In these days a businessman might expect 8 per cent, a Marwari 12 per cent, perhaps a Shylock might expect 24 per cent I would not mind your making provision for bare cost of supplying the water including the interest on the capital invested and also a small percentage as provision against bad or lean years, but I do not think it is fair to charge higher rates and make a profit

Dr Paranjpye *Q*—For these Government undertakings which bring in a return, would you provide for an amortisation by providing a sinking fund?

A—I cannot answer this question just now, I want more time to consider it. But I do not think productive debts need sinking funds That is my opinion at present, but I do not commit myself to it.

Sir Percy Thompson Q—Supposing you have a large area occupied by a number of cultivators and for whom large irrigation works are necessary in order to increase the productivity of the land. Obviously the individual cultivators themselves cannot provide the capital and therefore Government steps in and does it Supposing it doubles the productivity of the land Is not Government entitled to something more than a bare return on its capital?

A.—That case is provided for in question No 16 I thought of referring to it later on. Question 16 says "When land newly brought under cultivation or guaranteed a supply of water for the first time increases largely in value, is it right that the State should take a portion of the increase." If that is done, then the irrigation charges should merely provide for bare cost *plus* the interest.

In this connection I will give an instance. Government acquired some lands in Belapur in the Bombay Presidency for a sugar factory at the rate of about Rs 75 per acre, and they leased it to the company at a rate much higher than 6 per cent. on the price paid for the land. In the first instance, they worked out the income of the cultivators and also the land revenue and the Government leased the land to the company at ten times the assessment, so that they did not merely make 6 per cent, but made a profit on account of the higher assessment, and this may be called a betterment tax. At the time when Government leased the land to the company, it had not the advantage of irrigation; Government were able to acquire it at a very low rate knowing all the while that the land will have irrigation facilities in a year or two, and then they leased it to the sugar company and made money out of the transaction over and above the 6 per cent. that they paid for it That would be betterment

Q.—There is an increase in the annual output and there is an increase in the capital value?

A—I would not charge anything for capital value if the Government have the courage to buy lands at the ruling price and then sell them after fixing their assessment Will any Government be able to do it? A paternal Government may be able to do it, it might be done in an Indian State, but the Government of India will not be able to do it I want the Irrigation Department not to be a losing concern but to make sufficient for interest, costs and provision for lean years, if any. As I replied to Sir Percy Thompson, I would suggest a betterment tax To charge anything else from the capital value is not feasible

To Dr Hyder—As regards productive debt, I have not carefully studied the latest proposals of the Finance Member Personally I don't think that a sinking fund is necessary for productive debts That is my provisional opinion. I am not going to commit myself on this question.

Dr Hyder Q—Are these irrigation works, so far as their expenses and profits are concerned, to be taken separately or is the whole irrigation system of the Presidency to be taken together?

A.—I will take them separately

Q—So that in the case of one system which pays handsomely, you would not charge highly, but what would you do in the case of a system which is mainly of the nature of protective works? You cannot make the general tax-payer pay in such a case

A—At present we are talking of the productive, not the protective works

Q—The whole irrigation system of the Deccan, for instance, does not pay even a return of the interest in many cases.

A—As regards protective works, the general tax-payer has to pay. I thought question No 15 referred to productive works only

Sir Percy Thompson. Q—In the case of productive works, you say you would charge a water rate which will give a sufficient interest on the capital, costs, etc. How would you measure your betterment tax?

A.—I cannot lay down any general principles I will give you an instance. The proportion which the rental on canal irrigated areas bears to the old ons is usually 10 to 1 in that part of the country of which I spoke above. I won't take it as the rule for other parts of the country. I am merely talking of one particular instance

Q—You think that it is fair that your betterment charge should be based on the increased productivity caused by the capital irrigation works?

A.—I would do that, after taking into consideration the extra expenditure that the cultivator will have to incur in growing irrigated crops and deducting the same from the estimated increase in production.

To the President.—Question No. 21 is more for economists to answer. I merely wanted to say that luxuries of to-day may become necessities of to-morrow. Motor cars and motor busses, for instance, which were luxuries at first are looked upon now as necessities

I then came to question No. 31 I have read something about the capitation tax in Burma and I understand that it is levied not actually for irrigation or any other purpose It is levied at the sweet will and pleasure of the local officers and it is felt on sentimental grounds to be a humiliating tax If this represents the correct state of things, then it ought to go But I do not know all the facts about it.

Q.—The *thathameda* is levied by the local bodies, is it not?

A—I am talking of the capitation tax.

Q—That is called *thathameda* in other parts of Burma

A—They have power to forego it in any case if they like?

Q—They forego it in the case of teachers of religion and certain other classes.

A—I do not know on what basis they do it The chief grievance against it was that its administration was in the hands of local bodies who levied it in such a way that it was a harassing tax That was the complaint made by Mr Ramachandra Rao, M L A, who always writes soberly I thought he had made out a very strong case against it I merely go on what he said

The chowkidari tax, as I understand it, cannot be classed with the capitation tax, or the profession tax. The chowkidari tax, as it is used in my part of the country, is a tax levied for special chowkidari services rendered to the people It is a remnant of the old village communal system where each particular community which rendered services to the village was paid for out of a common fund. I do not know why it is classed along with capitation tax Capitation tax is not for services rendered

I come now to salt tax (No 32). Salt tax is one of the most objectionable taxes Still, I consider the capitation tax on principle to be more objectionable than the salt tax

Q—One of the proposals made to us the other day by a witness was that there should be levied an educational poll tax You would not agree?

A.—No

Sir Percy Thompson *Q*—What is your objection to the salt tax?

A.—On principle I think salt tax is levied more because it can be collected easily. It hurts the poor more than the rich. I consume as much salt as my chowkidar or servant does and yet I have to pay as little as he or he has to pay as much as I It is more a tax on poverty than on the richer classes

Q—That criticism would be applicable if the salt tax was your only tax. But if you want to tax to a very small extent the poorest classes and then get your graduation by means of other taxes, is it not a very simple means of getting it?

A.—It is because of the administrative facilities that it has been imposed. That is what I object to We have heard it said both in the Council of State and in the Assembly that it can be easily administered and realised

Q—Is that not a great virtue?

A.—To me the virtue of a tax is that it should hit the poorest classes as little as possible

Dr. Paranjpye. *Q*—What other tax would you levy if you want to get something out of the poorest person?

A.—I would exempt them altogether. I know you are a socialist.

Q—I want to bring you down to the proposition that the poorest man should not be taxed at all

A—I should think so.

To Sir Percy Thompson—The poorest class have to pay through the nose for everything I get my wheat cheaper. The poorest class has to pay more and that is an indirect tax he has to pay. It may not go to Government in the first instance and may go to the middleman but the middleman's profits are taxed by the Government He does pay for it in this way.

Q—It is rather a far cry to say that it is taxing the poor man when he is taxed through an intermediary who makes profit.

A.—I do not know The man has to pay. It has been called a sentimental objection, but I strongly object to it. There is another reason Although the latest salt reports of Government tried to show that the reduction of the consumption was not due to the heavy taxation, any how the doubling of the salt duty did lead to a certain reduction in consumption. As it is, our poor men are not able to get the percentage of salt that is absolutely necessary according to high medical authorities.

The President *Q.*—Could you give us that percentage?

A —Mulhall's dictionary gives all these figures. I could not get any further materials. England's consumption, I believe, is 72 pounds, per head, 36 for industrial and 36 for human consumption Even in poor Russia it is 15 or 16, while in India it is 12, and it went down to 10 or 10½ under the doubling of the duty. These figures are very interesting

Q —Was not the reduction to 10 or 10½ simply due to excess removals in one year prior to the change?

A.—That argument has been used As I said in Council last year, if this fact was known to the salt merchant before it was known to any of us even in the Assembly or the Council of State, then the administration of salt must have been very defective

Q —Don't you know that they speculate on these things?

A.—The year before last there were no heavy drawings The figures for January, February and March of that year were supplied to me

Dr. Paranjpye. *Q* —Since the salt tax was raised, people did not remove salt in that year and allowed their stocks to go down Is that not possible?

A.—That argument also has been used It is no use examining the figures for one year alone Take Gokhale's figures for the last ten years when he spoke on the subject in Council You will find that actually the consumption varied inversely to the salt duty

Dr Hyder. *Q* —Would you accept this, that the demand for salt is inelastic, whether the price be high or low. The total quantity demanded shows no responsiveness to changes in price.

A.—I do not think so

Q.—If the Government puts a heavy duty on salt then the people do not reduce the quantity that they consume and if they take off all the duties and if the price falls very much, even then the people do not consume more salt

A.—I do not accept that I merely refer to figures given by Gokhale for the last ten years in 1901 or 1902 Those figures show that there has been a regular fall in consumption when the prices go up You will find those figures given in the printed speeches of Gokhale The Secretariat Library has got a copy of the speeches It is also in Natesan's publication of Gokhale's speeches. I would refer you also to Mulhall's Dictionary I wanted to say that I do not like the salt tax at all, but I think the capitation tax is worse than salt tax.

The President *Q.*—How would you compare salt and tobacco? Would you like to substitute a tobacco tax for salt tax?

A —I have not thought of it I cannot tell you off-hand

Dr Paranjpye *Q* —If you want to do away with the salt tax, would you make the income-tax graduation even steeper?

A.—I would I am not merely posing as a friend of the poor I am prepared to pay for it and make the richer men pay for it

Coming to question No 35, on principle I think that earned income—income earned by a man with the sweat of his brow—ought to be given some relief compared to the incomes that are hereditary or got by investment in Government paper I am talking purely from the layman's point of view I do not know what economists would say on this point

Q.—Take the case of a man who has got one crore of capital He manages it. He attends his office from 10 A.M. to 6 P.M. and looks after it and earns an income on it of, say, 8 per cent Would you call all that income earned income or not?

A.—You will have to divide it. It is a very difficult problem I would put 4 per cent. or 5 per cent as the investment value and the extra 3 per cent. as the earned income, as due to his own labours I would charge different

rates on the two if it can be arranged. It is for administrators to say whether it can be done

Sir Percy Thompson. *Q*—That certainly would be the ideal. But would there not be frightful difficulties in administering it?

A—I know it is a very difficult problem. But as the question has been put, I thought I had better answer it.

Q—According to the English method, if income is earned by personal exertion, you knock off 1/10th before you tax the income. A lot of people think that that is too small and want to knock off 20 per cent. There have been motions in Parliament to knock off 20 per cent. At present you knock off 10 per cent. from the whole earning subject to a maximum.

A—The tax might be graded here also in a similar manner. The reduction might be put at 20 per cent. for men earning 1,000 or 1,500 a month but should be only to 10 per cent to men who earn, say, one lakh per annum.

Q—You would deal with the quantum of the increment by graduation, not by differentiation?

A—It is for administrators to say. The question having been put, I thought I might say what I thought of it I saw in the papers that there was a proposal to differentiate between permanent income and temporary income. I do not know whether it is possible to divide incomes into incomes from precarious sources and other sources, as suggested by one of the witnesses before the Committee

As regards question No 36, I do not think it is possible to make any allowance unless the Committee decides that some special allowance should be made for children's education, if that is possible.

Q—That is the English system again. So much is deducted from the taxable income for each child, and when the man makes his return he will have to indicate how many children he has It is perfectly easy to verify that statement, because there you have registration of births and deaths You have not that system here The question is whether you can verify his claim.

A.—I would not do that to start with for all children, but I would make some provision specially for children who are being educated and then you will have the school records to verify the claim.

Dr. Hyder *Q*.—Would you extend this to the income of the agriculturists also? The agriculturists may have children whom they may perhaps send to school or college We are here dealing with the question under the head of Income-tax. The agriculturists I have referred to above in large agricultural tracts may have only one source of income, agricultural income They pay land revenue on it. Would you extend this principle to them also?

A.—I am going to suggest in reply to question No 38 when we come to it that land income should be made liable to income-tax beyond a certain limit. We may discuss this question at that time.

As regards question No. 37, I want the Committee to consider one specific grievance which I put before my House when the Income-tax Amendment Bill came up The Hon'ble the Finance Member said that he would consider it later. Super tax is charged from companies with an income of over Rs 50,000 I want the Committee to consider the question of Feeder Railways which do not earn more than 4 or 5 per cent. In one or two companies in which I am interested we have to draw on the Government guarantee It is a concern of 10 or 12 lakhs—one is really of 15 lakhs—and it earns only 4 per cent and gets only Rs 60,000. I want you to consider whether some provision should be made for giving them some relief from super-tax. I am talking of Feeder Railways because I am interested in them and I know about them I am merely throwing out this suggestion for your consideration.

The President. *Q*—We will consider that suggestion.

A—If you will kindly look up the debate on the Income Tax Amendment Bill in the Council of State—I think it was in 1922—you will see the discussions there. I am interested in Feeder Railways and yet I referred to them because there is a general principle involved In the case of Hindu families, the only concession allowed on account of the joint family is that no super-tax is charged up to an income of Rs. 75 000, whereas in the case of private companies the limit for super-tax is only Rs 50,000. That is, a concession of 50 per cent.

is allowed in the case of a joint family for super-tax. I was told that if there are 4 or 5 members of a joint family, they have to pay the super-tax merely because they are members of the joint family system, although the income of each individual member is much below the super-tax limit I have not had time to study the question thoroughly, as only this morning I was told by somebody who complained about the super-tax that he had to pay it only on account of the joint family system.

Dr. Paranjpye Q.—Do you know of any joint Hindu family which has resorted to partition on account of this tax?

A.—People generally form a joint limited liability company and the husband, the wife and the son call it a private limited liability company Their income which is shown as a divided income is liable to super-tax. The other income is kept as a reserve fund

The President Q.—What is the next question in which you are interested?

A —The next question I would like to take up is question No 38 I want to draw your attention to the fact that when the last amending Bill of the Income-tax was before the Joint Committee of both the Houses of which Sir Alexander Murray was the Chairman, we discussed the question of the exemption from income-tax of the agriculturist. Sir Alexander Murray casually asked if this exemption was to continue, and expressed the view that it ought to be continued. The majority of the Committee said 'No' The members who took this view were the members from Bombay and Madras and one or two from other provinces The Chairman asked whether we were really serious about it and we said we were Votes were taken and our proposal was adopted. The chief ground was this I will take, first, the zamindars of the United Provinces, or Bengal or Bihar and Orissa I will refer to the ryotwari tracts later on. In these provinces some of the lands are holdings from time immemorial or are given for services rendered Others are purely investment lands Zamindars, Maharajas and Rajas are investing their money in lands more and more We in Bombay invest our money in industries or trade and commerce Now, for the return that we get from industries, trade and commerce we have to pay an income-tax But these Rajas Maharajas or big zamindars who get their income from land have not to pay any income-tax In the first place, I do not consider it fair In the second place, it leads to the congestion of money on land and consequently smaller sums are spent on industries or commerce If land goes up in value on account of more money being thrown on it, then the zamindars take to rack-renting On all these grounds I think that investments on land should not be income tax free This was the view I took in the joint committee Sir Alexander Murray did not like the terms and said that he must consult the Hon'ble the Finance Member The Hon'ble the Finance Member said that it was not in order and the matter dropped.

I am however prepared to give concession to those who have rendered service but even in their case it should be if the income is *earned*

Now, I come to the ryotwari tracts. The problem there is rather more difficult because the ryots there have to work and then get their return If, however, the principle that I have advocated is to be adopted then you cannot easily say that permanently-settled provinces will pay and the other will not pay

Q —Are you acquainted with the proportion of small and large ryotwari holdings? I think I am right in saying that in the Madras Presidency there are only 950 holdings that actually pay as much as Rs 1 000 land revenue

A —In the Bombay Presidency if profits from land were taxed, the whole income would not come to more than 4 or 5 lakhs With reference to the quotation in question No 39 I have to say that I do not know how Shah and Khambata have arrived at the figure that it will be 16 to 20 crores It must be guess work If I may interject a remark, some of the work to be done in an enquiry of the nature has to be guess work. They have written their book very well and I give them credit for it Still in some cases where no figures were available the authors had to depend upon some formula selected by them after making various guesses

Dr Hyder Q.—I wanted to ask you whether in the case of these ryotwari areas in the Punjab, Madras and other provinces you would exempt people on the same principle as you exempt in other cases, *i e*, all incomes derived from agriculture up to Rs 2,000 would be free of income-tax?

A.—My suggestion is that the same concession should be given to agricultural income as is given to other incomes.

The President. *Q*—What is the next question that you wish to answer?

A—I will now take up question No 40 I merely want to draw your attention to the fact that the purchasing power of Rs. 2 000 is practically the same as the purchasing power in pre-war times of Rs. 1,000 If the figures that are usually supplied by the economists for various index numbers are correct, then the Rs 2 000 of to-day is equal to the Rs 1,000 of pre-war times In that case no reduction is necessary.

Q.—The point of the question is that in European countries the limit is the bare limit of subsistence?

A—But my point is that what a man could get out of Rs. 1,000 in 1903 he cannot get to-day out of even Rs 2,000

Q—Let us suppose that it is Rs 100. Then the limit of subsistence must be somewhere in that neighbourhood?

A—It is Rs 100 for one individual So for a family of five, it will come to Rs 500 That ought to be the minimum if you want to give them some chance in life I wish I could increase the income of the agriculturists and those who live on agriculture

Q.—The complaint has been made that we give no exemption to the agriculturist although we give an exemption to the trader up to Rs. 2,000.

A—That point raises a very large question. The policy that has been followed under the Hindu Law leads to sub-division of land and not only sub-division of land but actual fragmentation. If I have 5 fields and three sons and the fields are in different parts of the village, each son might perhaps insist on the division of each field That leads to fragmentation and the people do not get anything out of them. The share that they get in one field is sometimes equal to the size of this table That problem has to be tackled I do not know whether your Committee can do it. But you must suggest some means of consolidation, then redistribution and then you should lay down a law in consultation with Hindu lawyers, the social reformers of the type of my friend Dr Paranjpye and the political leaders of the Swaraj type to the effect that there shall be no division of the land below 5 or 10 acres, which is considered to be the smallest unit that can maintain an agricultural family

Q—In your experience does that result from the operation of the Hindu Law and not from the operation of the policy of free trade which, we are told, has driven all the people from the land?

A.—It is due chiefly to Hindu Law. I think the Muhammadan Law also says the same thing I do not know how free trade comes in In regard to this system of fragmentation I would follow the system that has been introduced by Mr Calvert in the Punjab The only Indian State that is trying to follow it is Baroda The adoption of that system requires courage and not merely submission to the will of the majority.

Q—You do not consider that it is due to the British Government or to the ruralization of the people under the policy of free trade?

A—No Anybody who studies this question will come to the conclusion that this state of affairs is due mainly to the Hindu and Muhammadan Law of Inheritance

Q—Would the imposition of a very heavy stamp duty on transfers operate to check it?

A—I do not think so If the Government wants to make any reforms in this direction, it must take the people with it. I say it is for the social reformers Hindu legislators, Government officials and the political leaders to eradicate this evil.

There are several other questions to which I would like to answer But I am afraid I have already taken much of the time of the Committee and if you have no objection I would like to submit a memorandum which will cover those questions.

Professors P. A. WADIA, M.A., and G. N. JOSHI, M.A., Bombay, were next examined.

Written memorandum of Professors Wadia and Joshi.

Item No. 2 of the terms of reference of the Committee asks the Committee to consider whether the whole scheme of taxation is equitable. This question involves the consideration of the further question whether the amount of taxation taken as a whole is one which the people can bear This involves the question of ascertaining the national dividend and its distribution amongst the different classes of the population We cannot judge of the equity of the taxation system as a whole without reference to the question whether looking to the total ability to pay the total expenditure at present incurred needs to be reduced to make the taxation equitable as a whole. The taxable capacity has reference to the surplus from the national dividend, *i e*, the sum left over from the national dividend after deducting the minimum necessary for keeping the people in a physically and mentally efficient condition Thus this Committee cannot inquire into the equity of the taxation system as a whole without going into the questions of expenditure We may refer to Sir Basil Blackett's speech on July 8th, 1924, before the Indian Merchants' Chamber at Bombay where he says the taxable capacity of the people depends almost entirely on the nature of the expenditure of the Government it is a question of expenditure very much more than a question of taxation The total national dividend and methods of arriving at it in India the need for census of production the question as to deductions :—

(*a*) Dividend on foreign capital

(*b*) The freight and insurance charges

(*c*) New borrowings in England by Government

(*d*) Remittance by private individuals

Distribution of national dividend start with income-tax returns and number of assessees by totalling of the results we get the total income of people liable to income-tax and the number of people will be the number of assessees multiplied by 4½, let us call their income X From the total national dividend we have further to deduct the incomes of those who are non-assessees These include factory labourers let their total income be Y Agricultural labourers—the total income be Z Handicrafts men—the total income be H —Fishermen—the total income be F Miscellaneous class of clerks, domestic servants, etc , let us call it C Persons engaged in trade and transport—let us call it T The remainder of the population—call it cultivators—let us call it D Thus the equation will be as follows :—

National dividend = X *plus* Y *plus* Z *plus* H *plus* F *plus* C *plus* T *plus* D

In each case in calculating the number of people we shall multiply the active population by 4½ and verify the result from the census returns After thus ascertaining the distribution of the national dividend for each class we can ascertain the equity of the taxes as between class and class

Professors Wadia and Joshi gave oral evidence as follows :—

The President Q —You are both Professors of Economics?

Mr. Wadia A —Yes We are also the joint authors of the 'Wealth of India', of which we have sent you a proof copy. The memorandum which we submitted this morning contains a few points for our discussion to-day

Q —In the first part of your Memorandum, you say "we cannot judge of the equity of the taxation system as a whole without reference to the question whether looking to the total ability to pay, the total expenditure at present incurred needs to be reduced to make the taxation equitable as a whole The taxable capacity has reference to the surplus from the national dividend, *i e.*, the

sum left over from the national dividend after deducting the minimum necessary for keeping the people in a physically and mentally efficient condition". Then you refer to Sir Basil Blackett's speech before the Indian Merchants' Chamber at Bombay?

A.—The taxable capacity of any man or any class of people depends upon how much he or they are able to spare after supplying for themselves the necessaries of life, and you may find, as the result of your investigation, that there are enormous numbers of people, who are not getting even the bare minimum of subsistence, and that the alternative sources of taxation are not sufficient to make up for the total amount which the Government requires Under these circumstances, the only solution, in judging of the equity of the taxation system as a whole, would appear to be to cut down your expenditure.

Q.—Do you think it is possible that we should find, after excluding the people who have no surplus, there would still not be enough to carry on the Government on its present scale?

A.—Every nation requires a certain amount of savings out of which capital can be built up.

Q.—Then the surplus has got to allow first for subsistence and second for savings?

A.—The surplus has not got to allow for subsistence Every man must be guaranteed the subsistence—I should go so far as to say that everybody must be guaranteed the necessaries of life. No State has any right to take away from any man the absolute necessaries of life even for the purposes of an absolutely necessary taxation like internal or external defence.

Q.—Your national income must include subsistence?

A.—It must include subsistence, necessaries of life, *plus* a certain sum for saving from which capital can be built up.

Q.—How is that to be ascertained?

Prof. Joshi A.—Our point is, if you want to ascertain the taxable capacity of the people, you must ascertain the national dividend, and from that deduct the irreducible minimum of subsistence for the people as a whole, and then find out whether anything is left over or not If you find that something is left, if you find a surplus, on that would depend the taxable capacity of the people. But there is this danger that there are certain functions of Government which are essential and which ought to be carried out, whether there is any surplus or not, because the Government must be maintained for the purpose of defence, external and internal, and to that extent money must come out whether there is any surplus or not.

Dr. Paranjpye Q.—Supposing there is a population of one lakh whose income is just below the minimum margin of subsistence. On the other hand, there is a rich man whose income, let us say, is one crore. Do you think that the population of one lakh as a whole which is just below the minimum margin of subsistence will be incapable of paying any taxation?

A.—That whole population has no ability to pay, and we are in favour of taxing that one man.

Q.—The society as a whole has got no surplus dividend?

A.—But the case put before us is an extreme case, and that analogy cannot be applied to the distribution of the population in a country like India

Q.—In India one may agree that very large numbers of people are on the bare margin of subsistence or below it, but still there are comparatively large numbers of people who are very rich.

A.—They should be taxed.

Q.—Consequently the country as a whole has a surplus national dividend on account of the existence of comparatively large numbers of rich people, and Government can get a tax from them?

A.—Government can and must tax those persons who are above the margin, so that the country can get a tax, although there is no surplus margin.

Q.—So that your statement comes to this, that the country as a whole has a surplus dividend and that may be used for the benefit of the people who are on the bare margin of subsistence?

Prof. Wadia *A.*—You may find that the total taxation which you may get from those people who are above the margin or who have a surplus may not be sufficient to meet the expenditure that you are at present incurring. That expenditure is based on a war-time basis. You have not reduced the war-time expenditure, though we have now returned to normal times, and the Committee may ultimately find that its hands are tied by not going into questions of expenditure, and that the only solution would seem to lie in a reduction of the expenditure.

Dr Paranjpye. *Q.*—I take it, your idea is to improve the condition of the lowest classes, and that the solution for it lies possibly in taking more from the people who can well afford it and using it for the others

Prof. Joshi. *A.*—In your terms of reference you say that you want to examine the manner in which the burden of taxation is distributed at present between the different classes of the population so that you want to find out if the burden borne by each class is on an equitable basis That assumes that the present rate of taxation in India is normal. Our view is this. The Committee has to find out in the first instance whether the present rate of taxation in India is equitable in reference to the total national dividend, and whether the people of India have the ability to pay the present rate of taxation

Q.—Then you say that the Committee cannot enquire into the equity of the taxation system without going into questions of expenditure?

A.—Two words are omitted, and our statement should be modified to some extent. Our statement would then run thus "The Committee cannot enquire into the equity of the taxation system as a whole without ascertaining the question of the total national dividend, its distribution and the expenditure of the Government". The essential point is the distribution and also expenditure Our point is this If you discover that there are large classes of the population who cannot pay or who have not the ability to pay, and that there are other classes of the population from whom you are already taking more than they can pay and which goes towards the building up of the capital, you may find that the only way of having a more equitable system of taxation is to cut down your expenditure. In that way it has a relation to the expenditure side

Sir Percy Thompson. *Q.*—I think your suggestion is that you have really passed the taxable capacity in India. If you have really passed the taxable capacity of India, you will not find money spent, generally speaking, by people [illegible] which they can avoid, [illegible] the people are spend- [illegible] shows that you have [illegible]

A—What are those articles which people can avoid?

Q—If you find that a large bulk of the population are actually spending money on drink which is taxed, they cannot have reached the point of living which you can characterise as 'the bare margin of subsistence'?

A.—There is a danger if you take drink as a specimen, because once a drunkard, always a drunkard; whether the man has any surplus or not, he will always go in for it; he is a spendthrift

Q—Take the case of tobacco

A.—Tobacco for agriculturists is in a sense a necessity. Country tobacco is a necessity for agriculturists in this country and you cannot look upon it as a luxury.

Dr Hyder *Q*—What about fire works, feasts, marriage ceremonies, funerals, dowries and a lot of other things?

A—There are social and religious sentiments handed down from generation to generation to which the Indian people readily respond even by going into debt to an enormous extent You have to take into consideration the conservative habits of millions of people in this matter

Sir Percy Thompson *Q*—A, B and C may go and incur this expenditure and become insolvent, but you cannot say that a country gets insolvent. From where are the masses of the population raising their loans?

A.—Agricultural indebtedness It runs into several hundreds of crores

Dr. Hyder *Q*—If the agriculturist has got no income, then how can he raise a loan? If he has no security to offer, who is going to lend him money?

A.—The agriculturist goes out of possession of the land. That is the agricultural problem in India, and that has been growing in intensity ever since the Famine Commission of 1881. There is a greater demand for land owing to the increasing population. The price of land is going up, because there are no other means of livelihood. There is a confusion of thought. We do not suggest in the least that the country is bankrupt.

The President. *Q.*—Do you say that more than the whole surplus is being absorbed in taxation? The whole country is living below the subsistence level?

A.—The Committee may find it to be so as the result of their investigation. All we suggest is this, that in ascertaining the taxable capacity of the people of India, you will have to ascertain the national dividend, and its distribution, and you will also have to take into consideration the amount of the tax raised as a whole. We do not say that the taxable capacity has been reached. It is for the Committee to investigate.

Sir Percy Thompson. *Q.*—From where do the people pay the high prices of land? I suggest to you that that money is coming from their savings. There is no fund which will form capital except savings. If high prices of land are paid out of savings, it shows that there are savings, and if so, the taxable capacity has not been reached.

A.—It is a mere inference. It cannot be demonstrated by statistics. Land is bought not out of the savings. Where 73 per cent. of the population are depending on agriculture, they will pay any price for the land with the dead certainty that it is not going to give them any return at all, because these agriculturists have nothing else to do. In India, as in Ireland, the soil is the only means of occupation for the majority of the people, and they will be prepared to work it at a loss so long as they can get a little to keep them alive, because they have no alternative sources of occupation.

Q.—I suggest another alternative. Rather than buy land which they know full well will not give a return, they should live on the capital?

A.—There is a progressive deterioration in the physique of the people and they are dying.

The President. *Q.*—You suggest that the produce of the land is constantly decreasing and the price of the land is constantly going up?

A.—The total agricultural production is increasing, there is no doubt about it. We have never maintained the statement that the total production is decreasing. We concede that the total agricultural production is increasing, but we have simply stated that it is not possible for us to make a statement whether the production per acre is increasing or decreasing. We have left the point.

Q.—Don't you say in one place that a continuous exhaustion of the soil is going on?

A.—We maintain that. There is no doubt that a continuous exhaustion of the soil is going on, but we also say that it is supplemented by extensive cultivation.

Q.—You say the soil is being exhausted?

A.—There are signs which indicate that it is so.

Q.—Don't you make a large allowance of 20 per cent. for the exhaustion of the soil?

A.—I am afraid you will not find any definite statement of that kind in our book. The richer lands are getting exhausted from year to year, because you take something out of the fertility of the soil which you exhaust by rich crops, but you are not putting back anything into the soil by way of manure, etc. The principles of intensive farming that keep up the fertility of the soil are not being applied in India.

Q.—You say that the deduction of 1/5th of the amount invested for seed is an underestimate, because you make no separate deduction for the exhaustion of the soil which in a country like India, unaccustomed to scientific methods of cultivation, is considerable from year to year?

A.—Only in that sense.

Q.—Then a continuous decline in the outturn per acre must follow?

A.—We do not wish to dogmatise.

Q.—In spite of a considerable deterioration of the soil there is no decrease?

A.—The total production is going up because the acreage is spreading. But we do not wish to commit ourselves to any statement whether the *per capita* income is increasing.

Q—You say on page 11 of your book that "the Indian labourer working for 6 hours a day can satisfy his normal physical needs and that he need not be considered less efficient than an English labourer who is working for 8 hours a day." Then on page 180 you say that "the class system crystallises, . to make his life better or happier". So that I take it you do not expect the Indian so situated to compete with other nations in producing?

A.—This statement is made to show that the national production should be judged in relation to the national requirements. A lean man requires less food than a fat man who probably requires more food. That is the whole position. Taking into consideration the geographical situation and the climatic conditions of the country, if India is independent, if she has control over all the production, then Indians need not work for as many hours as people in other countries have to work for the satisfaction of their physical wants Your production should be judged in relation to your requirements India's climatic conditions are such that by working for 6 hours a day, all her requirements may be met.

Q—All these statements are made without qualification at all?

A—You take one passage from one paragraph and another from some other paragraph If Indian labourers can satisfy their normal physical wants by working for 6 hours a day, they need not be considered less efficient than English labourers who have to work for 8 hours to meet their physical wants That presupposes that we can have control over our production and also over the distribution. We do not export what we do not want to export That is, if the country is independent and has control over her economic activities as an independent economic unit

Dr Hyder *Q*—What have independence and control got to do with the question of export?

A—Who is it that gains by the export? Is it the cultivator? It is the middleman But if India were economically independent, she could direct her commercial activities in such a way as to meet her requirements essentially and primarily first and she could direct her energies to other things afterwards

The President *Q*—Is there anything to prevent India in her present political status from diverting land labour and resources into any direction she likes?

A.—Do you want us to express an opinion on that? It is a very ticklish question

Q—Your proposition is that if he can satisfy his normal physical wants with 6 hours' work a day, he need not work more Is that right?

Prof Joshi *A*—It does not follow that he need not work more We are comparing the efficiency of an English labourer with that of an Indian labourer

Prof Wadia *A*—We are only dealing with how many hours per day it will be necessary for him to work in order to keep himself efficient

Q—Supposing that he can keep himself efficient and that he can satisfy his normal physical wants with one hour's work a day He need not work more than that

Prof Wadia *A*—A man does not live on bread alone He has other wants to satisfy

Q—Let me take your proposition If he can satisfy his normal physical wants with six hours a day, he is equally efficient as an English labourer who works 8 hours a day

Prof Wadia *A*—He can produce by six hours' work just enough to keep him alive, just as an Englishman is obliged to work 8 hours a day to keep himself alive and physically efficient It is not a question of satisfying his other wants

Prof Joshi *A*—The question of efficiency should be judged in relation to requirements

Q—You say further on that the Greek artisan in the days of old was not the less efficient because he could afford leisure to take part in the deliberations of the Forum or to witness the plays of Sophocles or Euripides.

Prof. Joshi. *A.*—There were other wants which he could satisfy. If the Government could afford the opportunities for the development of his culture and life, well may the Indian bless himself for it. If his physical wants are satisfied why should he work more? He may work for his spiritual wants, but not for his physical wants.

Q—I am afraid you are confusing physical efficiency with mental efficiency. When you say that the Greek artisan was not the less efficient, I take it you mean he is not the less skilful.

A.—That statement was made in order to repudiate the statement that the Indian labourer is less efficient That is all that is meant by that statement. That statement is made having regard to the compensatory forces of nature in India An Englishman can work 8 hours a day; an Indian cannot work for more than six hours, and there is compensation by nature that his requirements are also less After all, national efficiency ought to be judged in the light of national requirements In England a man may work 10 hours a day and may not be exhausted; in India he is exhausted after six hours' work.

Dr. Hyder. *Q*—The total production by six hours a day is less than by eight hours

A.—But his requirements also are less

The President. *Q*—May we pass on to page 28 where you deal with the question of food supplies? You say that most of the main canals which are now in working order were in existence before the advent of the British rules, that the tanks have been allowed to go out of use and the wells are in a still more hopeless state of neglect I find it difficult to reconcile your statement with the statistics. I wanted to be sure what the ground of your statement was before we got on to the question of output Were the Punjab canals in existence before?

A.—They have been in existence. It does not mean that they were in working order But they were there. These canals are old canals. What we mean is that Government have enormously increased the old canals.

Q—Are the canals under the Sukkar Barrage scheme already in existence?

A.—We do not refer to the Sukkar Barrage.

Q—What about the canal works in the Punjab and Madras?

A.—They may have been considerably extended, and we are thankful for the same. But that does not affect the truth of the statement that we have made here.

Dr Hyder. *Q*—In the Montgomery district in the Punjab and other districts not a single grain of wheat was grown in the old days Now the whole export of wheat comes from the Punjab.

A.—India is thankful for all these blessings. We do not deny it.

The President. *Q*—Then you go on to say: "There are about 50,000 tanks. Many of the largest were allowed to go out of use. New ones are not constructed and the Local Boards for lack of funds cannot keep the old ones in repair."

A.—This is the information collected from Government statistics. We have not verified it personally. We got this information from the Imperial Gazetteer and other Government publications.

Q—Would it surprise you if I tell you that the Local Boards have no concern with irrigation at all and that the only tanks which they are concerned with are for drinking water?

A.—In Gujarat I know personally

Q—The passage in question refers to Madras. Now, to pass on to your estimate Do you make a distinction between the national income and the national dividend?

Prof Wadia. *A*—No

Q—So that you omit services from your calculation of the national income?

A.—No, we have included the services.

Sir Percy Thompson. *Q*—Productive services or non productive services?

A.—What is it exactly mean by non productive services?

Q—I would call a farmer ploughing his field a productive service and I would call a domestic servant a non productive service

A.—We have included both.

Q—Where have you included the services of doctors, teachers and the like on page 105 where you deal with agricultural production, mineral production, miscellaneous products, etc ?

A.—The services that we have included are to be found in Table IV. We have not included doctors.

Q—I suggest that the question I put to you is the correct one, that you have included productive services only and not the non-productive services.

A.—Yes.

Q—If you only included productive services, why do you divide the annual income by the total population and not by the population which is engaged in those productive services?

Prof Joshi. A—The total income is consumed by the whole population.

Q—That of course is perfectly true But the average income that you get by dividing by 245 millions is the income of the cultivator class after they have paid *pro rata* for these services. When you are getting to the point that these people are starving, I suggest to you that the first thing they will dispense with before they starve is these non-productive services. Supposing my income is Rs. 60 after you have debited me with a *pro rata* proportion of the non-productive services. We will say, that you debited me with Rs 20 for non-productive services, so that my real income is Rs 80 I suggest that it is not fair to say that I am starving on Rs 60, because I shall dispense with those services for which I am to pay Rs 20 and I shall starve on Rs 80 rather than on Rs. 60.

Prof Joshi A—To that extent our calculation is defective and that ought to be included I admit that it ought to be included

Prof Wadia A—I would make another suggestion as it occurs to me We are counting the total production of the country, and we are counting the total production in money value We are counting in the first instance *all* material articles produced and in the second instance all such services as add to, by time or place, the value of these material commodities, *e g*, trade, transport and other things But we do not in calculating this total national income include the services of teachers or doctors or lawyers because their services do not add to the money value of the commodities produced

Sir Percy Thompson Q—When you divide by 245 millions instead of by the total number of people who are producing, you are assuming that I have paid a portion of my income for these non productive services You must increase my effective income, because I am not going to starve by paying for these non-productive services

Prof Wadia A—I may have no occasion to pay for these services.

Q—Then why have you debited me with it?

Prof Joshi A—Our calculation ought to be improved by allowing for these services If we have excluded it, we have done so because the *earnings of doctors* and lawyers are extremely difficult to ascertain. To that extent our calculation is defective and could be improved upon

Dr. Hyder. Q—That can be ascertained very easily from the income tax returns.

A—It could be.

Sir Percy Thompson Q—If I am starving I shall not pay the doctor and the schoolmaster [illegible] national dividend does not in [illegible] *pro rata* that the man with a [illegible]

A—Is it not a fact that by excluding those persons we have increased the *per capita* income? We have erred on the safer side.

Q—I am not criticising your total production I am criticising your dividing by 245 millions instead of by some less quantity

A.—*These persons ought to be included.*

The President Q—Then, you calculate an average income of £3 and compare it with that of Japan of £6 I do not think you are comparing like with like, because Japan income includes the services

A.—We include the services also. If we have excluded them, it ought to be improved upon.

Q—Then you go on to say: "What shall we say of a man with an average income of £3, not allowing for taxation?"

A.—We have not made any concession for taxation. We have not deducted taxation

Sir Percy Thompson Q—You have included every penny of taxation on page 105. You have got Home charges as a debit That comes out of taxation. You have taken investment of foreign capital on behalf of India, you have taken profits on foreign investments and remittances of money by private account to European countries. All you have not included there is the part of the taxation that is spent in the country, and you would be wrong if you did deduct that, because it is spent in the country. Having done that, you are absolutely wrong in saying, as you do on page 109, "What shall we then say of an average income of £3, not allowing for taxation?" Every brass farthing you have allowed for.

Prof. Wadia A—Not the taxation that is spent in India itself

The President. Q.—What is spent on the Government servants is included in that population which is your divisor and which arrives at the average income.

Prof Joshi A.—60 crores spent on military expenditure is not entirely spent in the country

Q—The Home charges you have included. What about the sepoy?

A.—To that extent we may modify our statement But the statement is not incorrect. It requires modification. That is all

Prof. Wadia.—All we have deducted is the Home charges

Q.—May I take your estimate of income? In the case of fisheries and handicrafts, you first assume an income of 4 As a day, multiply that by the population, and then add that to the total, which you subsequently divide by the population Is not that rather an argument in a circle?

Prof. Wadia. A.—There was no other way of ascertaining the income of these classes That was the only alternative for us to do. That is only an attempt to arrive at certain estimates

Q—You agree that it is very unsatisfactory and that it is an argument in a circle?

A.—Yes

Q.—What do you base your 4 As on?

A.—We took the lowest wages that the vast proportion of these men can earn We are erring on the safer side.

Prof Joshi—Even 4 As. cannot be earned by the fishermen who work in the mofussil.

Dr. Paranjpye Q—What is their lowest amount of wage in the villages?

A—To-day the minimum is 4 As.

The President Q.—Another estimator put it down at 8 As

A—All the 365 days? It may make a difference of a pie in the income per head

Q—You say that the fishermen work 275 days in the year and the artisan 310 days

A—There may be storms in the rainy season when they are practically debarred from working We have allowed for all that

Dr Hyder. Q—I put it to you that the fishermen in Bengal sit in their own houses and fish on their own threshold

A—All the 365 days? It may make a difference of a pie in the income per head

The President. Q—You are no doubt familiar with Mr. Jack's book in which he points out that fish forms a large part of the food of the whole population of Faridpur and that everybody in the district is a fisherman. The whole of that escapes your calculation.

A—The census returns do not give us the figures of these people If the census figures are defective, our calculation also is bound to be defective.

Dr. Hyder. Q—People may have more than one occupation and these people may be shown as agriculturists and not as fishermen

Prof. Joshi A—We do acknowledge the possibility of men having more than one occupation. We have allowed for the manufacture of goods where we include a percentage on our raw materials

The President. Q—You say that the percentage which you add for manufacturing processes is 20 per cent.

A.—We have increased the value by 20 per cent. of the total raw produce.

Q—Does that cover all the processes of manufacture?

A.—That is only a reasonable guess.

Q.—You find that the price statistics are exceedingly unreliable and they show amazing variations.

A.—That we maintain.

Q—You say that the agricultural classes have not benefited because of the rise in prices of other necessaries At the same time you say that even now there is little buying or selling in the villages

A.—There is a discrepancy about the statement

Q—What are the necessaries of the agriculturist that have risen in prices?

A—Clothing, matches, kerosene oil, and all other requirements for household affairs

Q—Let us take cloth Does not the agriculturist in out of the way villages spin his own cotton?

A—Certainly not

Q—Not in the Punjab?

A.—We do not know anything about the Punjab. We are from Bombay. That statement is generally applicable to the whole country

Q—That includes the Punjab

A.—We do not specify any place It may be that in a district here and there they do so.

Q—Is there no handloom weaving?

A—Yes, there is a considerable amount of handloom weaving

Q—What happens to the produce?

A.—That is sold

Q—Are there no districts in which the family make their own cloths?

Prof Wadia A—We have acknowledged that in our estimate of the annual income

Q—In such cases, the agriculturist does not have to buy his cloth

A.—No

Q.—What are the other articles he buys? You say the rise in prices has not benefited the agriculturist.

Prof Joshi A—Kerosine oil, matches, sugar

Q—Imported sugar?

A—Yes

Dr. Hyder Q—Don't they burn rapeseed oil?

A—It is out of use in India It is fast dying out

The President Q—Why is that dying out?

A—Because it is dearer

Q.—If an old indigenous article goes out of use, I put it to you it is because people can afford something more expensive.

A.—The persons who used to cultivate these oilseeds are not cultivating them now. Every village was self-contained formerly so far as production went. *The oil seeds which are produced are sold at higher prices and therefore* it is not worth while for oil presses to sell them. The kerosine oil is comparatively cheaper but it has risen in price.

Q.—You contend that oil seeds bring no profits to the agriculturist?

A.—The point has yet to be decided whether the profits go to the agriculturists. You cannot deny the fact that the demands of land revenue are so rigid that the cultivator has to sell up his crop when the price is low. The profits of the agricultural products generally go to the middleman or to the *Soucar.*

Q.—I do not find any provision in your estimate for fruits and vegetables, condiments and spices and for dyes and drugs except certain specified items. Have you made any provision for them?

A.—We have taken fruits into consideration. Please see Table II, Items 11 and to a certain extent 26 In this case we have followed the Government Statistical Abstract

Q.—You have deducted 20 per cent. for seed and manure

A.—That is only a reasonable deduction.

Q.—But Sir Dadabhai Naoroji made a deduction of 6 per cent. for seeds

A.—Our figure is only an expression of opinion to arrive at an estimate.

Q.—In the case of mineral production you make an allowance for depreciation of 20 per cent. That again, I take it, is only a guess?

A.—Yes.

Q.—With regard to hides and skins, you assume that only 20 per cent. of the production is consumed in the country?

A.—Yes.

Q.—That is a very small proportion.

A.—Our difficulty is that we get statistics for exports only. We do not get the figures for total quantity of hides and skins produced in the country.

Q.—Your estimate of manures, wool and silk is also 20 per cent. Do you make any provision for cattle manure?

A.—That is not exported.

Q.—But do you make any provision for it for the addition of the wealth of the country?

A.—While talking about the fertility of the soil we do take it into consideration We have emphasised the point that cow dung is used as fuel. The deduction which we have made would have been much larger had it not been for the concession that we have made for cattle manure.

Q.—*You take no credit to the country for the manure produced?*

A.—No, because it goes out of the country.

Q.—May I put it to you that other people have made quite a large addition on that account—Rs. 5 a head. Now take poultry. Your estimate is 25 lakhs How have you arrived at that figure?

A.—It is purely conjectural.

Q.—May I put it to you that another conjecture is 375 lakhs which is based upon 12 eggs a day in one village out of two, which does not seem to be very excessive Now take cattle. You arrive at a value per day varying from 4 pies to 2 annas I suppose that again is a mere guess.

A.—That is based on our personal experience We have visited various places and have ascertained from various persons directly. In the absence of any data and information we had to do it personally.

Q—You say that bulls, buffaloes, camels, donkeys and horses and ponies are employed on farms?

A—Because they are used either for transport or for service in the field We have taken both these things into consideration

Q—Is not transport a separate thing?

A.—It is part of agriculture.

Q—Does a camel cart going to Afghanistan relate to agriculture?

A—These are included either in agricultural production or in transport and trade

Q—Please see page 103 of your book Have you made any provision for the income from Forests?

A—Table II, item 26—other non-food crops—will give you this information

Q—But forests are not crops?

A—Failing to get any definite information regarding forests in Government statistics we have included it here There is no specific provision for the timber extracted from Government forests

Q—For the purpose of ascertaining whether a particular class is heavily taxed or not, all that we want to know is the number of taxes that particular class has to pay?

A.—Yes

Q—Then what does it matter to us what the average taxation of the whole population is?

A—If you are in a position to ascertain all the taxes that are paid by a particular class, then it does not matter

Q—Is it not possible to find out what taxes the poor man pays? Don t you fairly know what a poor man pays?

A—He pays salt tax He pays part of the customs duties on kerosine oil, matches, etc He also pays for his clothing

Q—So we can arrive at a pretty good estimate of what he spends on the family?

A—He spends on his family nearly 40 per cent of the total income

Q—Then, do we want to know anything more about it? Is the average tax-payer affected any further?

A—You must at the same time take into consideration his income Suppose a man gets Rs 30, and you arrive at the conclusion that the taxes which he pays amount to Rs 2 Then the income which will remain in his coffers will be Rs 28 From one point of view you say that Rs 2 is not much, but you should remember that there is such a thing as the irreducible subsistence income If you call upon him to pay even As 8, it is certainly an encroachment upon his irreducible subsistence income

Q—I accept that position But what we are trying to find out is the extent to which the poorest people in each particular group of the population are affected by the existing taxes

A—But it is also necessary to ascertain what his income is

Q—But it is not necessary to find out what is the national dividend and what is the average income per head?

A—It is necessary from the national point of view You cannot say that the point of view of an individual is the same as the point of view of a nation There are occasions when the interests of individuals may be in conflict with the interests of the nation as a whole

Q—As you are aware there have been inquiries like the one we are con ducting all over the world since the war Can you suggest to me any nation which has based its system on the average income of the nation?

A—The average income is taken into consideration afterwards First of all, people raise taxation and then they inquire about the income.

January 1925.

At Benares.

The Committee were present at Benares from the 2nd to the 9th January 1925 in order to attend the meetings of the Economic Association They were present at the inauguration of the Conference at which the following Presidential address was delivered by His Highness the Maharaja of Benares —

" GENTLEMEN, I deem it a proud privilege to preside over to-day's function and to welcome here so many economists of note and fame who have graced this meeting from all parts of our country at no inconsiderable inconvenience to themselves I am fully conscious of the great honour you have done me by inviting me to take the chair at the inaugural meeting of this conference, though I had wished that this mantle of honour had fallen upon abler shoulders than mine

The subjects which could be discussed at a meeting such as ours are practically endless but from the agenda which has been submitted to me I see that the subjects which the conference is required to deal with are limited in their scope and belong rather to the sphere of political economy With all deference to the opinion of the conveners of this conference, I think that we could have met with greater advantage at a later date. Many of the subjects which we are required to consider are being dealt with by the Taxation Committee which by a singular coincidence sits at our city simultaneously with us The Committee has the advantage of examining a large number of persons of all shades of opinion and its report is sure to shed light on many obscure and abstruse points connected with the subject matter of our deliberation.

To begin with taxation Taxation is no doubt an evil But it is a necessary evil It is the basis of all civic life. No corporate body can exist without it, *more especially a body politic Call it a subscription, a donation, a fee,* a share, or a contribution it comes to the same thing All these are taxes in different forms meant to create a central fund to carry out the particular object in view With a Government, taxation is the basis upon which its fabric stands Different countries have different systems of taxation, according to their nature One country's system does not necessarily suit another's In India the land tax has been the mainstay of its Government from time immemorial Whether in the primitive code of Manu, the more methodical canon of the Buddhist Kings the regulated system of Ain i-Akbari or the scientific method of the present day's Government, land tax, either in kind or in cash, has been the one chief source of revenue of the Government of this country Of course it was supplemented by taxes on trades in different shapes and by some such other sources The needs of a Government determine the sum to be raised by taxation; the more civilized a Government is, the more expensive it is bound to be In a country like India which is exposed to invasion from both the land and sea, having a coast line of thousands of miles, and warlike tribes on its land flanks, the military expenditure has necessarily to be taken into account besides administration charges, and this swells our budget on the expenditure side beyond all proportion. This shall continue to be the case until a system of conscription in some form is introduced in this country for which, I am afraid, it is not likely to be prepared till centuries hence In our country we have to deal with three Governments, the Imperial, the Provincial and the Local. In other countries, I presume, there is not any need for Provincial Governments, unless they are federated States like the United States of America, the South African Union or the Australian Federation, and consequently no provincial taxation. But in a vast country like India with a multitude of nations in different stages of civilization, speaking different dialects a provincial division, and its corollary a provincial taxation, is indispensible. Local taxation however stands on another footing It can scarcely be called a tax in the strictest sense of the term It is levied in lieu of specific services performed These taxes are levied either for certain general services such as for instance, sanitary services, supply of pure water, sweeping and lighting of streets and the like, or for specific services such as electric and telephonic connections and so forth. All sorts of municipal taxation are meant to meet the requirements of the people inhabiting the municipal area. The more you add to the amenities of their

life the more they have to pay for it. Although in the strictest sense of the term every tax is, in fact, levied for certain services rendered by the central authority either to the individual, to the community or to the nation, those directly affecting the individual are optional and avoidable but those affecting the society or the nation are compulsory An individual is not bound to pay for telegram if he does not send a message or to stamp an envelope if he does not post a letter. But he must pay his income tax, his land tax, his duty on articles imported, etc, as these are meant for the well-being of the nation Keeping aside the consideration of local taxes, I do not see any very pronounced distinction between Imperial and Provincial taxation. Barring duties levied on sea-borne trades and revenues derived from State trades, such as from railways, telegraph and postal departments (I call them trades as to my mind they cannot be anything else) and State monopolies such as those of salt and opium, all taxes are realized through provincial agencies and from provincial sources. It is only an artificial administrative arrangement which earmarks a particular source of revenue or a part of it for Provincial or Imperial purposes. This arrangement shall have to be continued so long as the Imperial fund is not sufficient to pay its own way. Strictly speaking duty levied on the sea-borne trade is the only Imperial taxation levied in this country Revenues derived from railways, Government monopolies of opium and salt, post and telegraph services, and on mintage can hardly be called taxes I would treat them as trade profits. One is not bound to contribute to these revenues unless he has an occasion to derive a benefit out of them

It will be futile to my mind to discuss here the question of the provincial contributions to the Imperial exchequer Whether any contribution should be paid from out of the revenues of the provinces to the Central Government and, if so, what proportion of it would depend upon the constitution of the future Government of India Ordinarily it would appear to be a natural adjustment of taxes that those collected from provincial sources be spent upon provincial needs and those collected direct through Imperial agencies be devoted to Imperial purposes But as matters stand at present, the so-called Imperial revenue is not sufficient to meet Imperial needs and consequently provinces have to make the deficiency good by contributing towards it The arrangement is certainly neither based on any well recognised principle nor sound from an administrative point of view It was a tentative arrangement arrived at, in a haphazard way, to run the administration under the new Government of India Act

The question now arises how to solve this problem I am afraid it is not possible to do so until the constitution of the future Government of India is finally determined Assuming that some kind of federal system is ultimately evolved the question shall have still to be decided whether that system will eventually produce the maximum amount of provincial autonomy or whether it will imply the existence of a strong Central Government with the sphere of Provincial Governments strictly circumscribed The position of India in this respect is peculiar the like of which will be hard to find in any other federated country This country was so long administered on a unitary system A change from that system to a federal system would naturally necessitate the surrender by the central administration of some of its powers to the provinces whereas in other such countries where provincial autonomy did exist prior to their being grouped under a federal system the component States had to surrender certain of their sovereign powers to the Central Federal State It is very difficult to say just at present what form a federated government in India should take The note attached to one of the questions which the Todhunter Committee has issued very rightly and pertinently says "It is obvious that the form of federation into which India might develop would be profoundly affected by the extent to which the country was threatened by external dangers and also by the degree of industrial and commercial development which it might attain A federation of stationary agricultural States might be content with a system which in a highly industrial community would be unworkable" The importance, therefore, of laying down the lines on which resources should be distributed as between the Central and Provincial Governments is obvious The latter cannot be allowed to interfere with the economic unity of the country as a whole Elasticity of revenue in both spheres of Government should be secured with special reference to their respective functions.

To my mind therefore it is not possible to draw a hard and fast line between the Imperial and the Provincial taxation in the present liquid state

of the constitution of our Government Until the system of government in the country is finally decided upon the problem of the reconsideration of the existing system of taxation and of the determination whether it is capable of improvement both in its incidence and in its machinery appears to be rather difficult to solve

In distinguishing between Provincial and Local taxation, I fully endorse the opinion expressed in an article in the *Pioneer* that owing to the necessary dependence of the local authorities on less expert advice and service than are to be found in the larger administrations, the grant-in-aid system is the most appropriate method of control, supplemented by "optional" taxation, governed by consideration of the defects in the machinery at the disposal of local authorities, which make it necessary to rely almost entirely on the taxation of tangible property and by an appreciation of the danger of double taxation. Before leaving this subject I would like to mention that the burden of taxation in this country is not evenly distributed Some communities rather groan under its weight while others are practically immune from its incidence. Taxes have been and are being levied in a haphazard manner. Although taking the whole of it into consideration the people of India cannot be said to be taxed beyond their capacity to pay still, as I said above, the necessity of its redistribution on a more scientific basis is pressingly obvious

Your agenda also includes a discussion of the question of the industrial finance and of a mercantile marine for India Our country is an agricultural country and as such it depends almost entirely upon the vagaries of the monsoon. The life of the peasantry in the words of Kipling "is a question between a crop and a crop" The benign British Government has done much to improve the agricultural position of the country by providing a network of canals for irrigation Still it is not sufficient to protect the country as a whole and the monsoon still remains the main factor in the solution of an agrarian problem. And even at its best our country can only produce raw materials for the benefit of other countries Unless and until we make India an industrial country in the strictest sense of the term the problem of salvation and of its finding an honourable place amongst the nations of the world must remain a riddle Capital and labour are the two essential factors of industrious development. India possesses wealth but it needs to be converted into capital It is inhabited by sturdy and hard working people but they require to be made to work The capital in our country is very shy and labour exceedingly idle and unreliable Both require a gentle coaxing Call out the capital from its dark burial vaults and the labour from its wonted lethargy and our country will stand second to none in respect of industrial supremacy Of course, there are some political questions also to consider in this connection such for instance, the question of Protection, the question of Bounty, the question of Excise duty and so forth But these, to my mind, are of minor importance and once we succeed in solving the main questions of Capital and Labour these will not be long to solve themselves I am not in favour of indiscriminate Protection or of broadcasting Bounties These produce idleness and cut at the root of self reliance A victory in the field of competition is a sure sign of success in the industrial life Of course, infant industries require protection and some help in the shape of Bounty and Patronage but one must not rely upon these means as sole means of success With thousands of miles of its coast line with fine and protected harbours, India must need a mercantile marine of its own which may be the nucleus of its future naval strength

With an almost inexhaustible amount of raw materials within its reach, with a large store of the mineral wealth lying unexplored at its very door, with iron, coal and oil, the essential elements of any industry within its grasp and large number of labouring population awaiting employments, with natural facilities for sea-borne trade, our country ought to stand second to none in marching triumphantly upon the road to progress We are more prone to talk than to work and more eager for political progress than for economic and material advancement. And this to my mind is the cause of our backwardness. God helps them who help themselves. Let us learn to be thrifty. Let us improve our social and economical positions. Let us leave our differences behind and meet on a common platform of nationality. Let us be Indians first and any thing else afterwards. Let us prove loyal to our God, to our King, to our country, to our community and to ourselves and as surely as night follows the day we will become the first and foremost people in the world

With these few remarks I beg to declare the Conference open. May God help us in our deliberations and guide us on the right path."

6th January 1925.

Benares.

PRESENT

Sir CHARLES TODHUNTER, K C S I, I C S, President.

Sir BIJAY CHAND MAHTAB, G C I E, K C S I, I O M, Maharajadhiraja Bahadur of Burdwan

Sir PERCY THOMPSON, K B E, C B

Dr R P. PARANJPYE.

Dr. L K HYDER, M L A

Professor R. M. JOSHI, M.A., I.E.S., Professor of Economics, Sydenham College of Commerce, Bombay, was examined.

CENTRAL AND PROVINCIAL RELATIONS

(A paper read by Prof Joshi before the Economic Conference at Benares, 1925)

I propose in this Paper to deal only with one aspect, but in my opinion the most important aspect, of the financial relations between the Central and Provincial Governments in India, viz, the allocation of revenue resources between these Governments before and since the Reforms, and, I hope, to show how vitally important it is that the existing scheme of allocation should be reconsidered in the interest of the economic welfare of the millions of people inhabiting this country

Before the Reforms of 1919, the finances of India were regulated by the Government of India Acts of 1853 and 1858 the fundamental principle underlying both the Acts being to treat the revenues of India as one and apply them to the purposes of the country as a whole The East India Company as a commercial body naturally kept the Central Government in full control of all the revenues of the country, and on the transfer of India from the Company to the Crown though many other changes were made, this important principle was kept intact in order that the Secretary of State for India might be able to control the whole administrative machinery of the country through the Central Government Provincial Governments had in other respects extensive powers, but they could incur no actual expenditure without the formal orders of the Government of India This system was naturally felt to be very irksome by the Provincial Governments and a change for the better, to a slight extent, was made under Lord Mayo's Government, chiefly through the efforts of Sir Richard Strachey Each Local Government was now given a fixed grant for the upkeep of definite Services, such as Police, Jails, Public Works, Education and Medical Services Within certain limits, the allocation of the grant between these services could be made by the Local Government as it liked and the latter could also raise additional money by local taxes All the residuary revenues went to the Central Government A further advance in the same direction was made in Lord Lytton's time when in place of the fixed grants, certain specified heads of revenue were made over in whole or

in part to the Provincial Governments out of which they were to meet the expenditure upon the ordinary Provincial Services. These heads were—Forests, Excise, License tax (now income-tax), Stamps, Registration and Provincial rates. As the revenue from these heads was not ordinarily sufficient for Provincial requirements, it was supplemented by a percentage of the land revenue Settlements of these portions and percentages began to be made every five years from 1882 These quinquennial controversies could not of course lead to much smoothness of relations between the Central and Provincial Governments. So in 1904 under Lord Curzon's Government the settlements were made *quasi*-permanent Finally, Lord Hardinge's Government in 1912 made the settlements permanent, increased the Provincial share of growing revenues and curtailed their intervention in the preparation of Provincial budgets. In spite of all these improvements, however, the fundamental fact remained that the Provincial settlements were always based, not on Provincial revenues but on what the Central Government considered to be the Provincial needs Central control over Provincial expenditure was inevitable under these circumstances. As regards revenue, too, so long as the Government of India took a share in the proceeds of an item, it naturally interfered in the details of administration In the case of land revenue, for instance, it closely supervised the revenue settlements, likewise in the case of irrigation and so on Hence it was that in their Report on Indian Constitutional Reforms, Mr Montagu and Lord Chelmsford stated that if responsibility to the legislatures was to be introduced in the Provincial Governments, "clearly the Provinces must not be dependent on the Indian Government for the means of Provincial development" The authors of the Report, therefore, aimed at entirely separating the resources of the Central and Provincial Governments They found the heads of revenue classified into (1) Indian, (2) Provincial, (3) Divided Customs, Salt, Opium, Railways, Posts and Telegraphs belonged to the first category Provincial rates and receipts from Registration, Law and Justice, Public Works and Education belonged to the second category. Land revenue, Income-tax, Stamps, Excise and Irrigation were "divided heads" in all or some of the Provinces For instance, excise was entirely a Provincial head in Bombay, Bengal, and Assam but not elsewhere Land revenue was equally divided between the Central and Provincial Governments except that Burma got rather more than one-half and the United Provinces rather less The problem was how to allocate the "divided heads", so as to bring about complete separation of resources, the wholly Indian and Provincial heads being continued as before The solution proposed in the Montagu Chelmsford report was as follows —Land revenue, excise and irrigation were to be made Provincial heads Of course along with land revenue, the Provinces were to take up the very heavy liability for famine relief and protective irrigation works. The income-tax was to become a wholly Indian head. As regards stamps, Judicial stamps were to become a Provincial head whereas General and commercial stamps were to be a Central head

As regards the expenditure to be met by the Central and Provincial Governments respectively, the Report has very little to say It enumerates the things which the Central Government must do by the necessities of the case, *viz*, (1) defence of the whole country, (2) administration of the Commercial Departments, such as the railways, posts and telegraphs, (3) administration of strategic areas like the North-West Frontier Province, (4) foreign relations and relations with Indian States; (5) service of the Indian debt; (5) audit and accounting, (7) payment of Home charges By inference, the Provincial Governments are to look to everything else, *viz*., (1) Civil Administration; (2) Police; (3) Jails, (4) Justice; (5) Public Works; (6) Education; (7) Sanitation and Medical relief, (8) Agriculture and Industries

The authors of the Report found that when all sources of revenue had been separated and distributed as they proposed—and the heads of expenditure allocated in the obvious way—the Central budget showed a large deficit which they calculated at Rs 13 63 lakhs whereas the Provincial budgets all put together showed a total surplus of Rs 15,64 lakhs So they proposed that the Provinces should contribute to the Central Government enough to meet the deficit and they would still have Rs. 201 lakhs more between them as a result of the rearrangement of the finances The total deficit worked out at 87 per cent of the total surplus, so they proposed that each Province should contribute

87 per cent. of its own surplus They showed in a table the share of contribution of each of the nine Provinces and the surplus with which each of them would still start within the Reformed era Here is the table :—

Province.	Gross Provincial Revenue	Gross Provincial Expenditure	Gross Provincial Surplus	Contribution (87 per cent of col 1).	Net Provincial surplus
1	2	3	4	5	6
	(Lakhs of Rupees.)				
Madras .	13,31	8,40	4,91	4,28	63
Bombay . .	10,01	9,00	1,01	88	13
Bengal . .	7,54	6,75	79	69	10
United Provinces	11,22	7,47	3,75	3,27	48
Punjab .	8,64	6,14	2,50	2,18	32
Burma .	7,69	6,08	1,61	1,40	21
Bihar and Orissa.	4,04	3,59	45	39	6
Central Provinces	4,12	3,71	41	36	5
Assam .	1,71	1,50	21	18	3
Total .	68,28	52,64	15,64	13,63	2,01

The table at once shows the great disproportion between the contributions to be made by the various Provinces Madras is to pay Rs 4,28 lakhs and the United Provinces Rs 3,27 lakhs whereas Bombay escapes with a payment of Rs 88 lakhs and Bengal with that of Rs. 69 lakhs The authors of the Report were not unaware of this but they pointed out that it was not their proposals which created this inequality for the first time, it had always been there, but what had hitherto been concealed under the system of divided heads had now been laid bare that was all They admitted that their scheme failed to remove the inequality but they proposed that the next Statutory Commission which would revise the Constitution should re investigate this question of Provincial contributions to the Government of India

A great deal of feeling was, however, created in certain Provinces when the Report laid bare what had hitherto not been noticed by the parties concerned. So the Government of India pressed for an earlier consideration of this question than the Statutory Commission which was only to sit after ten years The Joint Select Committee of Parliament on the Reforms Bill accepted this view So the Secretary of State appointed a Financial Relations Committee with Lord Meston as Chairman and Messrs Charles Roberts and E Hilton Young as members, to recommend what contribution should be made by each of the Provinces for the year 1921 22 and how the same might thereafter be modified with a view to equitable distribution until there ceased to be any deficit in the Central Budget

The first important proposal of the Meston Committee was that all receipts from Stamps, whether General or Judicial, should go to the Provinces and that the head should not be split up as proposed in the Montagu-Chelmsford Report, Judicial Stamps alone being made a Provincial head and General Stamps going to the Central Government. So the Meston proposal made an end of the last vestige of "divided head" and carried the principle of separation of Central and Provincial resources to its logical conclusion

Then they re-estimated the deficit in the Central Budget for the year 1921-22 and they showed how it would amount according to their calculations and re-adjustments to only Rs 9,83 lakhs Then they gave reasons to show that the best principle on which to levy contributions from the Provinces in order to meet this deficit would be, not a proportion of the gross surplus of each Province as the Montagu-Chelmsford Report had suggested, but a proportion of the additional spending power which was going to accrue to the

Provinces because of the new distribution of resources. This additional spending power, the Committee pointed out, was in the nature of an unexpected benefit to [illegible] a portion of it was withheld—a portion [illegible] power accruing in each case—the Provinces [illegible] matter. Going upon this principle the Comm[illegible] the initial contribution of each Province :—

Province	[illegible]	[illegible]	[illegible]
	(In lakhs of rupees.)		
Madras	5,76	3,48	2,28
Bombay	93	56	37
Bengal	1,04	63	41
United Provinces	3,97	2,40	1,57
Punjab	2,89	1,75	1,14
Burma	2,46	64	1,82
Bihar and Orissa	51	*Nil*	51
Central Provinces	52	22	30
Assam	42	15	27
Total	18,50	9,83	8,67

The Committee admitted the inequality of these initial contributions though it proposals left each Province with an appreciably greater amount of spending power than the Montagu-Chelmsford proposals would have done. They then proceeded to consider how this inequality could be progressively diminished *and an equitable standard reached They of course made it clear that the* sooner the deficit in the Central Budget disappeared and the need for contributions from the Provinces ceased, the better for all Their proposals were to be only for the intervening period which they hoped would be short. In arriving at an equitable ratio of contributions, the Committee seem to have taken an extraordinary amount of trouble They tell us in their report on p 11 "In arriving at this ratio we have taken into consideration the indirect contributions of the Provinces to the purse of the Government of India, and *in particular the incidence of Customs duties and of Income-tax. We have* inquired into the relative taxable capacities of the Provinces, in the light of their agricultural and industrial wealth and of all other relevant incidents of their economic positions, including particularly their liability to famine. It should be observed that we have considered their taxable capacities not only as they are at the present time, or as they will be in the immediate future, but from the point of view also of the capacity of each Province for expansion and development agriculturally and industrially, and in respect of imperfectly developed assets such as minerals and forests. We have also given consideration to the elasticity of the existing heads of revenue which will be secured to each Province, and to the availability of its wealth for taxation After estimating, to the best of our ability, the weight which should be given to each of these circumstances, we recommend the following fixed ratio as representing an equitable basis for the relative contributions of the Provinces to the deficit" That a Committee of three gentlemen which began its enquiry on the 5th February 1920 and signed its Report on 31st March 1920 should have been able during one month and twenty-four days (it was a leap year) to do all the work modestly outlined above is, I believe, an unparalleled feat of human achievement and yet Sir Basil Blackett wonders how his Taxation Committee could tackle in a year or two with the problem of the taxable capacity of this country?

Here are the percentages of the initial contributions and the equitable contributions which latter the Committee propose should be reached by stages in the course of seven years Percentages have been given in order that a diminution of the Central deficit should automatically lead to a corresponding

diminution in the actual amounts of contributions paid by the Provinces in any year.

Per cent. contribution to deficit.

Province.	1st year	7th year
Madras	35½	17
Bombay	5½	13
Bengal	6½	19
United Provinces	24½	18
Punjab	18	9
Burma	6½	6½
Bihar and Orissa	*Nil*	10
Central Provinces	2	5
Assam	1½	2½
Total	100%	100%

For three years from 1921 to 1923 the Reforms have been worked on the new financial basis proposed in the Montagu-Chelmsford Report as modified by the Meston Committee's Report, and they have been worked by a party which believed in honestly giving them a trial Change in this respect only came in 1924 and we shall omit the consideration of that year But how did the new financial arrangement work during the first three years of the Reforms? Is it not a fact that in spite of the additional spending power with which the authors of the Montagu Chelmsford Report and the Meston Report thought they blessed the Provincial Governments at the beginning of the new era, every one of those Governments found it extremely difficult even to carry on the administration in the same old pre Reform fashion? Instead of new programmes of education, sanitation, rural public works, agriculture, rural and urban industrial development, etc, were not many of the pre Reform activities in these departments actually stopped or curtailed in most of the Provinces in the new Reform era? And yet in order to do this smaller amount of nation building work, did not every Province have to resort to additional taxation? Could each Province with all efforts it made raise more than a crore or two of rupees of additional taxation? After raising that amount once, did not every Province feel at its wit's end how to raise more money if it wanted to launch a new programme of nation building activity? On the other hand is it not a fact that the Central Government could raise thirty crores at a stroke in one year and another ten in the next, though of course these forty crores of rupees of additional taxation by the Central Government did not bless the country with a new nation building service, any more than the twenty crores or so of additional Provincial taxation did anything in that line? All these additional crores went merely to keep things going as in the pre-Reform days, as a matter of fact not even that much was done as pointed out above The financial troubles in the Provinces led to attention being concentrated on the Provincial contributions to the Central Government, especially in Madras, United Provinces Punjab and Burma A great crop of inter-Provincial jealousies sprang up on this account, and the agricultural Provinces were ranged against the comparatively advanced industrial one Bombay alone from the very first has tried to direct the attention of the country to the grievous flaw in the new scheme of distribution of resources adopted in the Montagu-Chelmsford Report, *viz.*, that the Central Government was given all the expansive heads of revenue with the exception of excise whereas the Provincial Governments were saddled with all the heads of expenditure wherein the public demand for expansion was practically insatiable No wonder that the reformed Provincial Governments had precious little of the new era to show to their subjects in spite of the additional taxation Let us closely examine the three tables culled from the Statistics of British India 1922 Table No 1 shows the growth of the revenue for the whole of British India since 1877 down to 1920 by quinquennial averages The remarkable growth of Customs, Excise and Income-tax is the most outstanding feature of that Table The growth during the war period should particularly be noted Land revenue and stamps show only a very moderate growth Salt is not very encouraging though at a pinch it could be made to yield more as experience has shown Opium revenue was practically threatened with extinction when the Chinese market was closed in 1913 but other consumers seem to be keeping it up to no mean a height

Table No. 3 ought to be taken next It shows the results of the working of the Commercial Departments As the name indicates, the least that ought to be expected of these Departments is that they should not land the State into a loss, but most of them did till nearly the end of the last century. But since then they have been a source of profit which has increased considerably from 1912 onwards

Taking Table No. 2 and Table No 3 into consideration and adding to them the experience of the three Reform years, not the slightest doubt can be left in one's mind that the new allocation of resources left most of the cream in the hands of the Central Government The one expansive source of revenue which was allotted to the Provinces was Excise, i.e., mainly liquor excise and that is an item which public opinion is overwhelmingly in favour not of expanding but of contracting The same could of course be said of the item of opium on the Central side Only Excise is a prop of Provincial revenue whereas Opium is a comparatively unimportant item of the Central revenue.

Now let us look at the growth of expenditure during the same period as depicted in Table No 2 The expenditure is of course also for the whole of British India. The item which monopolises attention is the Army. Education, Sanitation, Agriculture, Industries, in short, all the nation-building departments are compressed under the heading of "Civil Departments" in the Table. All these put together and the Police added on to them weigh less and have always weighed less in comparison with the Army. For thirty years before the War Indian public men have been protesting against the excessiveness of the Army expenditure and against the starvation of Education, Sanitation and Medical relief and the woeful neglect of Industries. The origin of the Reforms lay in these incessant protests The Reforms were meant to give Indians the chance of doing what they had charged the pre-Reform Government with having failed to do The things that the Indians wanted done on a much larger scale than had ever been attempted were to be done in the Provinces, and that meant money and more money and still more money at the command of the Provincial Governments And yet in the Montagu-Chelmsford Report when the allocation and separation of resources come to be discussed, these urgent needs for ever increasing expenditure on the nation-building departments in the Provinces are not even so much as mentioned The expenditure of the Central Government of which the main portion is the extraordinarily swollen military expenditure is quietly taken as a reasonable first charge on the revenues of India, all the expansive heads of revenue excepting Excise are handed over to it to meet that expenditure and to meet its growth too; and on the top of it all the Provinces are saddled with contributions because the Central budget still cannot balance, whereas the Provinces are left to launch their programmes of Education, Sanitation, Medical relief and what not with invisible funds.

The whole basis of the allocation of resources under the Reform scheme has entirely ignored the new Provincial liabilities in the expectation of which the people asked for the Reforms and unless that basis is seriously reconsidered, those expectations have small chance of fulfilment. It is not merely a question of the abolition of Provincial contributions That abolition will undoubtedly help Madras, the United Provinces, the Punjab and the Burma a great deal, but even so will not give them an expansive item of revenue, it will only help them to make up the leeway and come up to the level of the advanced Provinces like Bombay What is essential, in addition to the abolition of Provincial contributions, is the surrender of the income tax by the Central to the Provincial Governments That will give even the agricultural Provinces a great stimulus to the development of industries and trade within their areas, so that there will be an expansive source of revenue at the command of all the Provincial Governments to meet the growing expenditure in those departments wherein public opinion keenly demands great and rapid strides

All this sounds, I know, like asking for the moon But I am speaking as an economist amongst economists not as a practical politician which is not my rôle The key to it all is a drastic cut in the military expenditure It is for the politician to consider how that is to be brought about. My purpose in the present paper as I said at the outset is to show the vital need for a reconsideration of the allocation of resources between the Central and the Provincial Governments. I leave it to the reader to judge how far I have succeeded in doing that.

TABLE No. 1

—		Provincial Rates.		Income-Tax.		Total.	
	%	Rs.	%	Rs.	%	Rs.	%
1877—78 to 1881	3 8	2,68,97	4 6	17 67	·3	57,76,88	90 8
1882—83 to 1886	2 1	2,86,27	5	68,27	1 2	51,91,17	91
1887—88 to 189	2 4	3,29,87	5 2	1,56,36	2 5	57,30,20	90 8
1892—93 to 1896	4 9	3,60,12	5 3	1,78,83	2	62,19,29	90 6
1897—98 to 190	6·8	3 87,65	5 3	1,60,10	2 7	66,17,37	99 3
1902—03 to 1906	7·6	4,04,27	4 9	1,99,20	2 4	73,63,01	80·1
1907—08 to 1911	9 8	1,35,36	1·6	2,35,88	2 8	77,06,25	90 5
1912—13 to 1916	11·8	25,33	3	3,47,77	3 8	81,94,11	90 1
1917—18	14	4,29	...	9,46,22	8	1,00,16,58	84 7
1918—19	13 8	4,20	.	11,63,77	8 8	1,04,78,44	79·7
1919—20	15 2	5,35	.	23 20,78	15 7	1,26,43,63	83 6

TABLE No. 2

—		Army (including Military Works and Special Defence Works)		Famine Relief and Insurance		Total	
	%	Rs.	%	Rs.	%	Rs	%
1877—78 to 1881	5 8	22,35,83	39 2	1,47,36	2 6	53,37,89	93 6
1882—83 to 1886	7 6	19,67,19	35 6	1,27,52	2 3	53,24,06	96 4
1887—88 to 1891	7 3	22,66,28	37·7	1,52,76	2 8	57,71,28	95 7
1892—93 to 1896	6 9	25,47,35	38 5	1,11,14	1 6	64,10,45	96 6
1897—98 to 1901	6 8	25,17,80	35 2	3,45,30	4 8	67,53,48	94·2
1902—03 to 1906	9	30,21,50	37 1	1,46,65	1 8	79,19,79	97 2
1907—08 to 1911	8 5	30,81,10	35 6	1,78,41	2 1	83,18,43	95 3
1912—13 to 1916	9·3	34,22,95	35 1	1,50,00	1 5	95,10,48	97 6
1917—18	6 1	46,14,55	37·1	1,50,00	1·2	1,19,50,67	96
1918—19	5 4	70,24,53	44 7	1,50,00	1	1,53,06,03	97 4
1919—20	5 8	91,03,00	49 2	1,71,01	·9	1,82,58 68	98 7

is maintained. The administration and salaries and so forth are paid from the whole income of the province, but I think land revenue contributes a large portion of it

A.—My answer is this. It is to meet this sort of expenditure I have advocated the surrender of the income-tax by the Central to the Provincial Governments.

Q.—Outside income-tax, what else have you got? You have only got direct taxes in urban areas, and you have got the road cess, etc., which is collected through the land revenue agency and handed over to the District Boards How would you meet the other charges if you handed over land revenue to the local bodies?

A.—I have already said that if income tax were handed over to the Provincial Governments, then all the other charges can be met from it.

Q.—What about the provincial contributions then?

A.—If the income-tax is transferred to the Provincial Governments, it is on the top of abolishing the provincial contributions. They will no longer exist

The President *Q.*—Would not the Central Government cease to exist?

A.—The Central Government will have to cut its coat according to its cloth For the defence of the country there can only be such provision as the nation wants Education, sanitation and rural development are suffering badly, and money must be found for it out of the money raised now

The Maharajadhiraja Bahadur of Burdwan *Q.*—I think you will have to admit that land revenue is not given by the people for the sake of their getting it back in education sanitation, etc It is for the services rendered rather than what you call for other works of utility. For instance, you levy education cess or the public works cess, if that cess was not handed over for public utility then it is wrong Now the whole cess is very rightly handed over to the District Boards because it is for the improvement of these objects the cess is collected I think you cannot apply the same test to the land revenue

A.—If land revenue were abolished and we had as in England only income tax under four or five schedules with a distinction between earned and unearned income, then what we at present call land revenue would be collected as in England in the form of a local tax as property tax Land revenue is not given to Government in return for any services; if this is so, it is only for proprietary right.

Sir Percy Thompson *Q.*—That is what exactly the Maharaja means. Should not a man who gets land pay something?

A.—If he wants to cultivate the land, out of sheer necessity, he will have to pay it

Q.—If he did not pay either to the landlord or Government, he will have a beneficial advantage

A.—I quite agree Land revenue is paid out of economic rent. You may precisely see that the cultivator pays it out of the expenses of cultivation, which include the wages for cultivation and that they are not equal to the minimum of subsistence of the cultivator There may be economic subsistence.

Q.—You may have an uneconomic holding

A.—Precisely. Land revenue was devised as a matter of necessity. Now it is not a sheet anchor of Government as it used to be

Dr Paranjpye *Q.*—Then you want to make an absolute present of proprietary rights to everybody?

A.—If you assimilate it to income tax, only such men as have an economic holding will have to pay, all others will have land presented to them for nothing

The President *Q.*—Then you want to pay perhaps a rate on the capital value?

A.—If we assimilate it to the British system, then I do approve of it. I suggest that land revenue should not be called a local rate, but should be applied as if it were a local rate I do not call land revenue a local rate, but I say, the most practical way out of the difficulty is to enable the local Governments to collect it as if it were a local rate

Sir Percy Thompson. *Q*—My difficulty is really a more fundamental one. You talk about the surplus which may not be sufficient to keep the cultivator alive?

A.—The wages I mean

Q—You take a concrete example You have a farm of 100 acres and pay £100 which would be a differential value of that land The landlord divides into 10 bits and gives it to ten people, but the 10 cultivators cannot make a living What can the landlord do? Again, similarly if you treat Government as a landlord, why should fragmentation of land be allowed?

A—My reply is that a person in England would not undertake to cultivate land unless it is a business proposition A farmer in England is a capitalist and he rents his farm and keeps the farm buildings, etc, and if he finds by transferring that capital and energy to another enterprise he will gain more, he would not take it up In India we have nothing else to do than cultivation No doubt it is not a thing to be proud of, but it is a thing to be ashamed of We do not need so many people in agriculture, but we cannot help it

Q—You are encouraging fragmentation of land?

A.—That is why I wanted to know whether land revenue was a rent or a tax and that should be decided first A landlord says I shall only let out in holdings of 10 acres each I consider 10 acres will enable a person to make a living The State, if it were a landlord and exercised these privileges as a landlord, would merely say if you have nothing else to do, we cannot help it

Q—If you chose to cut it up, you will have to pay some rent Once you start reducing the rent, it would encourage fragmentation?

A—That is why I chose the line of least resistance I suggest a method whereby the people who are paying as land-revenue however small a fraction, and are making a miserable living, should at least get a return in things which are tangible At present the villager feels the pinch most If he wants schools, roads or hospitals there is no money He pays land revenue for his land, pays for his coarse cloth in the shape of a tax, and if he drinks he pays for it too and pays in a hundred ways but gets nothing in return

The President *Q*—Have you any experience of profession tax imposed by the local bodies in this country The taluk boards in the Madras Presidency levy this tax on small traders for local purposes They are levied by the local people for their own purposes Would you be surprised to hear that the local bodies have given it up because nobody will pay it?

A—Practically, we will have to collect money for them, and allow them to spend it

Q—Do you agree that the local bodies are more unwilling to tax and experience more difficulty in collecting tax?

A—Yes, I agree It is largely due to the fact that they are paying so much already that to ask them to pay more, is really uncharitable

Dr. Paranjpye *Q*—Do you know that in my Compulsory Primary Education Bill at Bombay, I proposed that the local fund cess may be raised to one anna at the option of the local bodies, but a large number of members said "let the Government increase it but do not leave the option to the local bodies?"

A—Undoubtedly there is a feeling that practically as much as could be taken has already been taken So long as that feeling is there, people will surely be unwilling to pay it

The President. *Q*—It is rather an old-fashioned theory that all the Central taxes should be indirect, and all the Provincial taxes should be direct Have you

studied the effect in the United States of the Federal Government depending almost entirely upon the customs revenue; it was embarrassed with the fluctuating revenue from customs duty?

A.—There was a time they did not know what to do with the money.

Q.—But do you know that there was another time when the customs revenue fell and they had to raise money by all kinds of further taxation?

A.—I quite grant that the income tax in some States is Provincial and in some Central.

Q.—You turn now to question No. 147. Which is the best method of giving a broad basis of division of the proceeds so that no Government need be dependent upon the other? You may divide the sources of taxation between the Federal and State Governments Then, the tax may be assessed by the central authority with additions for local purposes, and thirdly there is division of the yield This division of the yield would of course involve uniform rates for the whole of India Would it not give you a more suitable basis for Central and Provincial distribution?

A.—I should agree to the income tax being Central if it came to that I pleaded out of necessity, because I do not see how money can be raised It is not feasible. If we keep the income-tax for the Central Government and any further income tax which the Provincial Governments may collect is allowed to be kept by the provinces, that would be quite all right

Dr Paranjpye. *Q.*—You do not want income tax imposed twice?

A.—It does not matter Taxes on individual incomes can be provincialised

The President. *Q.*—Would you have income-tax levied at uniform rates or leave it to the Provincial Government to put the rate as high as they liked?

A.—It would be preferable if income-taxes on individuals are provincialised, and incomes on corporations centralised

Sir Percy Thompson *Q.*—Then you have double taxation. Is it not a difficulty?

A.—If it is not too steep it will not be difficult

Q.—To place a tax on corporations? Will it not be prohibitive to tax individuals as well as corporations?

A.—I do not want to copy the English system England is in a very unfortunate position

Q.—You have got the same thing in France and in other States. Even in India the rate of tax is not very low.

A.—I do not think income-tax is very high. But the corporation tax would be 0-1-6 in the rupee in the profits At present it is only deducted at the source.

Q.—If you do not do that, would you leave it to be collected from the individual?

A.—So far as the method of collection goes, the tax on the incomes of the individuals will continue to be collected by the corporation At present there is no tax on corporation profits, if you have such a tax it will be a tax on the total profits

Q.—There are many practical difficulties. Suppose you have a big firm, such as a company, which has its headquarters at Bombay and branches in Lahore. Who is going to get the income tax? Is the Bombay Government to get it or the Punjab Government? You are going to base your tax purely on the residence, what about the big manufacturing districts? Are they going to sacrifice these taxes?

A.—I think the principle of taxation is that the residence where people stay is the locality which benefits by the expenditure incurred out of the taxation. Therefore it is but right to tax on the residential qualification

Q—Take the case of an island producing cocoa. You have a company located in England, in France, etc, and working the cocoa of the island. What will you do in this case?

A—But the corporation is located in England The Government of the island can manage to secure profits before the profits are divided among the share holders

Q—Then you say there must be double taxation?

A—I am afraid a certain amount of double taxation is inevitable. In the case of India if the share-holders live in Lahore, and the office is located in Bombay and income-tax is collected in Bombay, there is not much loss

The President. *Q*—Have you studied the proposed division of taxation?

A.—I think I am much more in agreement with this

Q—You have told us how you are going to divide the income-tax Now would land revenue be Provincial?

A—Purely Provincial

Q—What about the Customs?

A—Central.

Q—Now what about Excise? I think you proposed the other day that the excise duty should be Central and license fee should be Provincial?

A—Yes *The nation hopes to be free from drink very soon* *In this country,* the drinking habit to the extent we find it, is barely 40 years old

Dr Hyder *Q*—Is that so, Mr Joshi?

A—Yes, to the extent we find it now

Q—Don't you know that villagers have always been drinking during the panchayats, marriages, etc?

A.—At any rate they have not drunk with all the facilities provided now The great solicitude displayed by Government over this matter seems to surpass their solicitude in any other respect

The President *Q*—Have you read figures of the reduction of shops in the last 20 years?

A—I am glad to see the direction in which reduction is taking place I think much more severe reduction should take place I was a member of the Committee enquiring into the progress of co-operation in the Konkan district of the Bombay Presidency, and I spent nearly two months in the heart of the villages I found the villagers practically unanimously saying that if only the temptation of drink was not placed before them, they would not drink so much

Q—Will you give us the locality, the place and tahsils they are situated in?

A—The whole of Ratnagiri and Konkan districts.

Q—Do you think it is practicable to stop drinking altogether? Because you lose 21 crores of revenue and there is the cost of preventive work?

A.—Unless you have all the force of local opinion with you, it is impossible to stop it

Q—Will it be of any use?

A—It would be helpful.

Q—Have you any experience of municipal towns where all the shops have been closed?

A.—I think they are not sufficiently tried. I do think it is quite possible to prevent drinking altogether as it has succeeded in a country like America

Q.—Don't you know that illicit drinking has largely increased there?

A.—I am loath to believe it.

Q.—You are prepared to consider the diminishing of the excise revenue?

A.—I am looking forward to it

Q.—Would you leave it to the Central or the Provincial Governments?

A.—I should leave it to the provinces to diminish it

Q.—In every other country excise duty belongs to Central Government.

A.—I think Provincial Governments are the best agency to make it go

Q.—Well, if tobacco is taxed, will it come under indirect taxation?

A.—I do not mind if it goes to the Central Government

Q.—What about succession duty?

A.—Succession duty would have to go to the Provincial Government.

Q.—Would you allow varying rates?

A.—I think people would not go and die in Bengal leaving all their property in Bombay

Sir Percy Thompson *Q.*—Would you tax where the property is situated? Then you go on a principle different from that you advocated in connection with the income-tax?

A.—I go on the same principle, as we do with regard to the corporation tax If the property is situated outside a particular province, then the proceeds should be shared between the provinces

Q.—Supposing the rates are different?

A.—Then they will get the benefit of the rates

Q.—You are not advocating the water-tight division of duties, such as has arisen under the Montagu-Chelmsford Report?

A.—No.

The President *Q.*—With regard to the question No 161, you have already agreed that local bodies should rely primarily upon special assessments and fees of all kinds?

A.—Yes

Q.—District Boards rely principally upon surcharges upon the land revenue or a corresponding charge on annual value You agree to it?

A.—Yes

Q.—What about octroi?

A.—I want octroi to go altogether.

Q.—But you are not prepared to abolish house tax?

A.—There should be house-tax even under a Swaraj Government. I believe there would be a bureaucratic form of government even then.

Sir Percy Thompson *Q.*—Have you got the same objection to terminal tax as you have to the octroi? Some condemn octroi as thoroughly objectionable as in Cawnpore, but do not object to terminal tax?

A.—We have got it also in Bombay. That really does not create difficulties

Q.—You say that if terminal tax is kept, it will not be subject to as many objections as octroi?

A.—Yes.

9th January 1925.

Benares.

PRESENT.

Sir CHARLES TODHUNTER, K C S I, I C S, President
Sir BIJAY CHAND MAHTAB, G C I.E., K C S I, I O M, Maharajadhiraja Bahadur of Burdwan
Sir PERCY THOMPSON, K B.E, C B.
Dr R. P PARANJPYE
Dr L K HYDER, M L A

Professor C. J. HAMILTON, M.A., I.E.S., Patna College, was examined.

The Growth of Taxation in relation to Population and Prices.

(A paper read by Professor Hamilton before the Economic Conference at Benares, 1925)

In discussing the Indian tax system in relation to its incidence and possible modification it is desirable to start with a consideration of the growth of revenue as a whole and of taxation proper in recent times It is obvious that a mere statement of the revenue collected by the Government over a series of years expressed in terms of money will possess little significance Such figures must be related to the number of persons from whom the revenue is obtained and to the movement of prices in order that some idea may be formed of the average real wealth which has been taken from the tax-payers

Revenue in relation to population and prices.

TOTAL REVENUE IN LAKHS OF RUPEES.		Population of British India (1 000).		Revenue per head	Revenue per head corrected for price charge.
Average for—	Lakhs				
1	2	3		4	5
				Rs	
1898-99 to 1902-03 . .	109·58	231 259	(1901)	4·7	
1908-09 to 1912 13 . .	144·33	243 933 .	. (1911) .	5 9	4 9
1918 19 to 1919-20 . .	234 41	247·003 .	. (1921) .	9·5	4 1
1923-24 . . .	209·98	249 470	. (1923)	8 4	4 2

The revenue for 1923-24 is taken from the Budget Estimate for Central and Provincial revenue for that year. The figures for previous years are taken from Statistics of British India, Volume No 1624. The population for 1923 is estimated on the assumption of an annual growth since 1921 of 1 per cent. I have calculated that between 1900 and the second period taken above prices rose 20 per cent, between the first and third periods 130 per cent; and between the first and last period by 100 per cent

The chief difficulty in correcting the growth of revenue for changes in the general level of prices is due to the many problems attaching to the construction of a reliable price index number.

I have examined the material available on the subject of Indian prices since 1900 and, although the price statistics are admittedly unsatisfactory in various ways, there appears to be sufficient data for asserting that between 1900 and 1920 there was a general price rise of some 130 per cent. The outstanding feature of the Indian price movement in recent years was the very great rise that took place during the last three or four years of this period. Since 1920 there has been a reaction and the present price level may for purposes of general reasoning be placed at approximately 100 per cent above the level at the beginning of the century

In order to interpret the real growth of revenue in terms of the goods and services consumed by the Government it is necessary to allow, not only for the rise in the price of commodities, but for the change in wages and salaries of the labour employed also From the volume on "Prices and Wages" published by the Department of Statistics I have estimated that between 1900 and 1920 the general rise of wages was approximately 95 per cent. From these statistics it would seem that the wages of unskilled labourers have risen in a greater degree than those of skilled workers and this conclusion is in accordance with the predominant evidence from other sources There would seem to be ground for believing that wages paid in Government employment have risen somewhat more than those in private employment. On the other hand the movement of salaries for the higher grades of Government employees certainly did not keep pace with the movement in general prices to anything like the same extent.

It will be seen that the revenue per head during the period 1918-20 was, as corrected for growth of population and rise of prices, slightly lower than in the pre-war period In so far as wages and salaries did not rise in the same proportion as prices, Government gained as a consumer of labour and its real revenue was thus somewhat higher than is indicated. Since 1920 although prices have fallen, wages and salaries have risen Thus it may be said that at the present time the real goods and services consumed by the State through the expenditure of its revenue are approximately the same as in the period 1908-13

It is not difficult to see in these figures an explanation of the inability of Government during the years of rapidly rising prices to balance the budget. The expansion of expenditure to which the war gave rise was met only to a small extent by an increase of real revenue The deficit was obtained by a large recourse to loans.

In stating that the real revenue was approximately Rs 4 2 in 1923-24 as against Rs 4.7 at the beginning of the century it does not, of course, imply that the real burden to the tax-payer has fallen, since it does not follow that the capacity to pay has continued constant. This constitutes a problem to be separately examined

Growth of the constituent elements in the Revenue system

During the present century the Indian revenue system has undergone a very considerable change It may still be said to rest on the old frame-work, inherited from the Mughal period, when the land revenue, the royal monopolies, and the abkari taxes formed the principal sources from which the State obtained its funds During the first half of the nineteenth century the chief modifications of the tax system consisted in getting rid of the worst remaining elements of the pre-British revenue that survived the abolition of the sayer duties, such as the transit duties and the discriminatory sea customs

duties During the remainder of the last century little important modification was made An important new principle was established with the introduction of the assessed taxes which, however, left the actual revenue but little affected The customs duties were varied within comparatively narrow limits in response to financial necessities and the niceties of free trade theory. It has been left for the administrators of the present century under the three-fold influence of a great rise of prices, the exigencies of war, and a wider conception of the responsibilities of the State in regard to economic development, to graft upon the old and largely inelastic revenue system the most readily available means for enhancing the Government receipts. The nature and extent of these changes may be briefly presented

A.—The Land Revenue

The net land revenue (i e, deducting the irrigation charges that are in some places collected as part of land revenue) during the present century has increased as follows —

1900-01.	Average for 1907-09.	1919-20.
Rs.	Rs.	Rs.
25·25.	28 88	33 91.

An increase of 34 per cent.

In order to obtain a true idea of the movement of land revenue these figures need correction for several factors The first is the rise in prices If the index of the price rise between 1900 and 1920 be taken as 100 . 230 then a land revenue of Rs 25 25 lakhs in 1900 would, other things being equal, be equivalent to a revenue of Rs 58 07 lakhs in 1920 The fact that the actual land revenue in 1920 was only Rs 33 91 lakhs was thus tantamount to a reduction of nearly 42 per cent

This very important effect of the general rise of prices has not, of course, been felt evenly in the different provinces. About one-fourth of the cultivated area in British India is permanently settled and the landlords of these permanently settled areas have gained most In the temporarily-settled areas the increase of land revenue has come about chiefly in those places which have gained from an extension of cultivation, such as the Punjab and Lower Burma In the more fully developed agricultural areas, even under raiyatwari settlement, the enhancement of land revenue per cultivated acre has been almost negligible during the period through which prices have been rising fast In calculating the extent of the real modification in the land revenue during the past quarter of a century account must be taken of other factors besides the movement of prices The extension of railways tends both to reduce the expenses of cultivation and of marketing the produce Since 1900 the railway mileage has increased from less than 25,000 miles to over 37,000 miles The whole benefit of this development has not been transferred to the consumer, but has in many cases imparted an increased differential value to the lands served by the railways Since 1900 the irrigated area has increased from 32 million acres to 48 million acres in 1920 Some part of the benefit derived from this increase of irrigation is represented by the increase of irrigation revenue, but there is a substantial margin left to the holder of irrigated lands The net area sown with crops in British India has increased from an average of 202 million acres in 1901-03 to 217 million acres for 1919 21 Thus it is clear that if allowance were made for the extension in transport facilities, in irrigation and in cropped area a considerable increase must have taken place in the rental value of land which is equivalent to a further reduction of the burden of land revenue over and above that allowed for in the rise of prices

B —Forests

In the Indian public accounts the revenue from forests is classified under the same general head as that from land revenue In reality the income is

of a composite character, but nearly four-fifths of the gross forest revenue is derived from the sale of timber The Forest Departments are becoming and should be still further regarded as commercial departments in the same category as the railways The accounts relative to these commercial activities should be separately kept As a revenue-earning department the comparative position since the beginning of the century is briefly as follows —

—	Forest area square miles.	Gross revenue lakhs	Net revenue lakhs.	Increase of net revenue per cent.
		Rs	Rs	
1900-01 . . .	208,369	197	83	
1919-20 . .	250,949	536	219	154 per cent.

It will be seen that the net revenue from forest property has increased rather more than in proportion to the rise of prices and, with progressive management, it is certainly capable of becoming more productive The distribution of forest revenue between the several provinces is very unequal. In 1920 21 the gross revenue from forests in Burma was Rs 221 lakhs, while in Bengal and Bihar and Orissa it was Rs 18 and Rs 9 lakhs respectively

C.—Opium

The opium monopoly, from having been by far the most important source of revenue second to the income from land has at the present time become comparatively unimportant In the quinquennium 1877-81 the gross revenue from opium amounted to 17 per cent of the total receipts in British India. In 1919 20 it was only 3 1 per cent The opium revenue should be divided under the two heads, taxation and tribute The following table will show the change in regard to this source of revenue during the twenty years 1900 20 :—

—	Gross receipts lakhs	Net revenue lakhs.	Quantity exported chests.	Sale value lakhs.	Quantity provision opium chests	Quantity excise opium chests.	Average price per chest.
	Rs.	Rs.		Rs.			Rs.
1900-01 . .	765	497	69,708	945	14,157	4,517	1,350
1919-20 . .	455	325	11,359	291	7,401	8,138	3,149

The figures in columns 3 and 4 are for total exports and include Malwa opium The sale values in column 4 are thus not comparable to the gross receipts in column 1.

From the data given it may be roughly calculated that in 1900 India obtained as tribute for its opium a sum of about 3½ crores of rupees, while in 1920 it received only some 1¼ crores. The taxation in respect of opium may be put roughly at about 1¾ crores in the latter year.

D.—Salt

A comparison between the revenue from salt tax in 1900 and in 1920 may be suggested by the following table :—

—	Salt duty.	Salt duty per head	Quantity consumed per head.	Salt duty corrected for change of prices and population.
1	2	3	4	5
	Lakhs Rs	Rs	Seers.	
1900-01 . .	875	378	6·2	A salt duty of 875 lakhs rupees allowing for the growth of population and for a hundred per cent rise in prices would be equivalent to a collection of 1840 lakhs in 1924 25
1919-20 . .	529	·217	8 1	
1924-25	1054	434		

The salt duty in 1900 01 was levied at the rate of Rs 2 8 per maund, the rate to which the duty was restored in 1923-24 Allowing for the change in the purchasing power of money the present rate is equivalent to a rate of Re 1 4 in 1900

E.—Stamps.

The revenue from stamps, judicial and non-judicial, has increased as follows .—

1900-01.	1919-20.	1922-24
Lakhs Rs.	Lakhs Rs	Lakhs Rs
501	1192	1364

(the figures for 1923-24 is the Budget Estimate including both Central and Provincial receipts under this head).

While the revenue from judicial stamps doubled during the first twenty years of the present century, that from non judicial increased three fold. Thus the first approximately kept pace with the rise of prices, while the second represented a real increase of revenue.

F —Excise

The following figures show the expansion of the excise revenue excluding the opium excise —

1900-01.	1919-20.	1922-24 B. E
Lakhs Rs	Lakhs Rs	Lakhs Rs.
4 88	16 59	19·31

Allowing for the movement of population and prices there has been a real increase of revenue between 1900 and 1923-24 of approximately 88 per cent

G —Customs

During the war period India virtually passed from the character of a free trade country with a low tariff for revenue to that of a country with a tariff imposed with the double purpose of giving protection and yielding a high

revenue. The great expansion in the receipts that has followed this change of policy is reflected in the figures :—

	Average 5 years ending—		
	1900-01	1919-20	1924-25 B E.
	Lakhs Rs	Lakhs Rs.	Lakhs Rs
Imports	391	1543 }	
Exports	87	481 }	
Total	478	2024	4501

The nominal increase in the income from custom duties is thus seen to be not far short of ten-fold and the revenue from this source is now far above that from land revenue which until comparatively recently yielded nearly half the total receipts of Government Even allowing for the increase of population and prices the customs revenue has risen by not far short of five-fold. This constitutes nothing short of a fiscal revolution and upon the customs revenue has been placed the lion's share of the burden in making up for the great fall, due to the rise of prices, in the revenue from land, and the monopoly taxes

H —Income-tax

The growth of income tax during the period here considered has been as follows :—

1900-01	1919-20.	1924-25 B E.
Lakhs Rs	Lakhs Rs.	Lakhs Rs.
196	2320	1821

This shows a nominal increase of over nine-fold and a real increase, allowing for population and prices, of four-fold, between 1900 and 1924-25.

I —Tribute from Indian States

The small revenue from this source varies very little from year to year. It was as under :—

1900-01	1919-20.
Lakhs Rs	Lakhs Rs.
86	93

If this tribute had increased proportionately with the rise of prices it would have amounted to Rs 197 lakhs in 1919 20

The result of the consideration of the principal heads of revenue in relation to the movement of prices and population between 1900 and 1920 may be summed up as follows :—

Revenue.	Actual 1900-01	Actual 1919-20.	Corrected 1919-20.	Nature of correction.	Deficit or surplus lakhs.
Land Revenue net	25·25	33·91	62 37	For price rise and net sown area	—28 46
Forest	·86	2 19	1 97	For price rise.	·32
Opium	4·97	3 25	11 43	Ditto	—8 18
Salt	8 75	5·29	21·16	For price rise and population.	—15·87
Stamps	5 01	11·92	12 30	Ditto	—·38
Excise	4 88	10·59	12·00	Ditto	1 59
Customs	4 78	20 24	11·56	Ditto	8 68
Income-tax	1·96	23 20	4·80	Ditto	18 40
Tribute	·86	·93	1·97	For price rise	—1·04

The balance arrived at by this comparison between the actual revenue obtained from the principal sources of State income in 1900 01 and the revenue which would have been a true equivalent in 1919 20 as against the revenue

actually collected in the latter year shows a total deficit of Rs. 21·94 lakhs despite the great increase of customs revenue and income-tax (including excess profits tax). Thus the services of the State could not have been maintained at the earlier level unless the revenue had been supplemented by increased receipts from other sources. These resources were principally obtained from borrowing and from the profits obtained from the Commercial Services.

There remain to be considered certain other forms of revenue. The most important are those commonly classified under the head of Commercial Services.

The three heads of revenue commonly classified as Commercial Services are Railways, Posts and Telegraphs, and Irrigation. It has already been suggested that the major part of the revenue from Forests should be similarly classified.

The receipts under the head of Commercial Services, as they appear in the public accounts, exaggerate the total of public revenue beyond the true amount. In the case of the railways the gross earnings, less working expenses and the profits and subsidies of private companies, are treated as net earnings forming part of the public revenue. Under public expenditure is included the payment in respect of interest and sinking fund on railway capital. Thus in 1919-20 the revenue from railways was stated in the accounts as Rs. 31·83 lakhs. But against this Rs. 17.93 lakhs was included under the head of public expenditure on account of interest and other charges. The real addition to the revenue from the railway service was thus Rs. 13·90 lakhs. In the case of the Posts and Telegraphs and Irrigation Services the gross receipts were entered as public revenue and the gross expenditure appeared as a contrary payment under public expenditure. (In the case of the Posts and Telegraphs a change has recently been introduced by which the working expenses are deducted from gross receipts and the balance only now appears as revenue.) In 1919-20 the revenue under these heads was given as Rs. 9·20 lakhs and Rs. 8·74 lakhs respectively. After deducting the expenditure the real additions to revenue from these services were Rs. 2·07 lakhs and Rs. 2·3 lakhs. It may be noticed that in consequence of the change in mode of stating the revenue from Posts and Telegraphs the revenue for 1923-24 appears as less by over Rs. 8 crores than would have been the case had the old method been retained. The following table shows the revenue at four periods in the present century, distinguishing the income from the principal heads of revenue, the Commercial Services, and other revenue sources. In brackets are given the true net receipts from Commercial Services and the total revenue calculated in this way :—

Revenue from	1900-01	1910-11	1919-20	1923-24.
1	2	3	4	5
	Lakhs	Lakhs	Lakhs	Lakhs
Principal heads . . .	67·94	82·56	127·52	149·68
Commercial services . .	34·65 (1·21)	30·10 (4·00)	49·79 (18·67)	39·87 (5·29)
Other sources . .	10·30	7·59	18·29	18·02
Total . .	112·89 (79·45)	120·55 (94·15)	195·60 (164·48)	207·57 (172·98)
Revenue per head on basis of net receipts from Commercial services	Rs. 3·4	Rs. 3·8	Rs. 6·6	Rs. 6·9

From the table given above it will be seen that, while in 1919-20 the revenue derived from the principal heads had not kept pace with the rise of prices and the increase of population since 1900-01, the additions to taxation during

the last three years have rather more than restored the balance. The results obtained from the Commercial Services as they are stated in the public accounts would appear to have deteriorated when allowance is made for price changes, and the conclusion might be drawn that the prices charged in respect of these services had not been sufficiently enhanced. The net receipts under this head for 1923-24, as has already been noticed, appear as less by Rs. 8 crores than they would have done save for the change in the system of account. Even allowing for this it is evident that the revenue from the Commercial Services (as ordinarily stated), has very far from kept pace with the change in the purchasing power of money. Whether it should so change raises important questions of principle. In so far as a commercial service yields a surplus after all expenses have been paid, including interest on capital, it is an instrument of taxation. If it is proper that it should be so used, it follows that the tax revenue should increase in the same proportion as general prices. If it fails to do so there is a remission of taxation. But it is evident that the measure of taxation involved in the revenue from Commercial Services is not properly stated in the figures of revenue receipts as given in the public accounts and it would thus be quite improper to expect that these should show an increase proportionate to the rise in prices. Whether or no the receipts from Commercial Services show an adequate advance cannot be answered without reference to each service in particular. Apart from such considerations as increasing or decreasing efficiency of management which will affect the financial results it would seem clear that it is not in accordance with sound principles of taxation that services such as the posts and telegraphs, or the railways, should be made to yield a tax revenue. Where, however, capital has been invested in the past in productive undertakings, supplied, not from loan, but from revenue, the State would be justified in reaping a surplus equivalent to the current rate of interest on such capital. Such surplus should not be treated as a tax on the present users of the services. In the case of State Irrigation Works it will probably be the case that the supply of water increases the capacity of the user to bear taxation. The measure of the surplus value due to the irrigation will be directly affected by a change in price level. Irrigation rates should therefore be raised, not in proportion to the rise in the expenses of irrigation, but in relation to the enhanced value of the produce resulting.

Certain questions of interest arise in connection with the various items of revenue which I have grouped under the head of "Other sources". In a large number of cases these represent merely book transactions and not any collections from the public. To this extent they should be deducted from the total revenue in order to obtain the true amount of taxation. In the revised budget estimate for 1923-24 a sum of Rs. 324 lakhs was included in the revenue to be derived from interest. In the same year Rs. 294 lakhs were included for revenue under the head of currency. It is clear that interest receipts represent a gross income from the employment of the proceeds from former revenue. It might be argued that such funds, if they had not been taken from the tax-payers, could have been employed to yield interest for private persons and that, therefore the interest obtained by the State, no less than the principal, should be regarded as a tax. But if this method of argument is adopted it must be applied to all forms of taxation and the calculation of the real amount of taxation would thus include compound interest for all periods subsequent to the time of its original collection. Such a contention seems so fantastic that it need not even be mentioned were it not for the fact that it has been actually advanced and accepted in another connection, namely, in the calculation of the amount of the so-called "drain". Revenue from interest can only be treated as a real deduction from taxation that would otherwise have been necessary.

The revenue from exchange and currency is not so simply dealt with. Gain from exchange that arises from the fact that Government has estimated the cost of certain foreign remittances at an amount greater than is actually needed is obviously a mere book transaction. It does not represent any real contribution either by the tax-payers or as a tribute from abroad. But Government may also be, in effect, a considerable exchange banker and make a real profit from the use of its funds in buying and selling exchange. If the State possessed a monopoly of such exchange business it might obtain a monopoly revenue from the members of the community which would properly be classed as a tax. Any other gain is likely to approximate to an interest

upon the use of its balances and, like interest proper, constitutes a commercial income to be treated as a deduction from the amount of taxation otherwise needed

As a result of the analysis of the revenue that has been made we may now make an approximate estimate of the amount of taxation per head in British India for the year 1923 24. I make no attempt to estimate the amount of the customs duties that, if an exact analysis were possible, we could include as foreign tribute and to that extent a deduction from taxation, although there is little doubt that in recent years India has received some tribute of this kind Taking the amount of the revenue under the principal heads, *viz.*, Rs 149.68 lakhs, I deduct 1½ crores as opium tribute, 2 crores for the sale of timber, 87 lakhs for tribute from Indian States, making 4 37 lakhs. There is, as I have explained a difficulty in assigning the gain from railways In *1923 24 it amounted to 5 28 lakhs I propose to regard it as entirely interest* on past investments from revenue. There was in this year a net loss on the working of posts and telegraphs The revenue from "Other sources" I omit as either book transactions or contributions to revenue other than taxation There remains the question of classifying land revenue and the surplus income from irrigation In the case of irrigation works, if they are regarded as commercial undertakings, it is clearly improper to arrive at an estimate of profit by deducting the loss from the unprofitable undertakings from the profits of those that are profitable Each undertaking should be treated separately. Those that are unprofitable involve a tax burden Those that yield a surplus above expenses and interest tax the users in the same way as any other monopoly service *Thus the total of surplus profits without deducting* losses should be treated as taxation I have not seen the accounts for 1923 24 but in 1920 21 the total surplus profits were 411 lakhs

Thus the final position would be approximately as follows —

1. Income from principal heads of—

	Rs Lakhs
Revenue in 1923-24	149 68
Deduct Tribute	2 37
Total	147 31

2 Surplus income from Commercial Services, treated as taxation.

	Rs Lakhs
(*a*) Railways	5 28
(*b*) Irrigation (1920-21)	4 11
Total	9 39

3 In the case of Forests the Revenue (gross) is included in the total of Receipts under the principal heads above In 1923 24 it was Rs 591 lakhs (provincial accounts only).

The expenditure on Forests was Rs 359 lakhs This expenditure may be analysed under two heads —

(*a*) that which is spent in working and managing the forests as a purely commercial enterprise We may assume that a similar amount would be spent by private business even in the absence of State enterprise This should be deducted from that part of Forest revenue which accrues from such enterprise If a surplus remains it should be classed as taxation,

(*b*) that which is spent on Forests otherwise than as a Commercial Service

Thus if, as I roughly estimate, some 2 crores of Forest expenditure may be debited as gross expenditure for a Commercial Service, this sum should be deducted from the revenue under principal heads to reach the true amount of taxation.

The treatment of land revenue should be on similar basis The gross expenditure incurred for administering the land regarded as a Commercial *Service should be deducted from* gross *land revenue The balance should be* treated as taxation

I have no data for even a broad calculation of this amount but it is obvious that it is considerable Omitting this correction the total taxation may be given as Rs. 156 70 lakhs less 2 crores, or Rs 154.70 lakhs; equivalent to slightly over Rs. 6 per head of population in British India in 1923-24

One final point may be mentioned. The Customs revenue is really paid by the people of India as a whole Thus in 1923 24 some 10 crores may be treated as contributed to the Central revenue by the people of the Indian *States This* is perhaps an overestimate as consumption of imported commodities in Indian States may be less than proportional to population. In any case the taxation of the people of British India requires to be reduced by some 5 or 7 annas per head on this account.

Professor Hamilton gave oral evidence as follows :—

The President —*We should like to examine you in the order of our ques*tionnaire, for the sake of convenience To begin with, let us take the question of incidence and examine it with reference to the note you read before the Economic Conference.

Dr Hyder. Q—With regard to the figures you have given, you say there has been a rise of prices Are you quite sure about this index number? That is, about all the articles contained therein? For instance, in the Government of India index numbers there is a commodity called spelter Surely it exercises no influence whatever.

A—I do not claim any extraordinary degree of accuracy for my index number, because, I think, at present with the material which is available it is impossible to have any great confidence in any index number by whomsoever it may be prepared I took all the figures available My method was thus I took a series of commodities I started with commodities which are only consumed by the peasants and I drew graphs of the price movements in respect of these commodities in different provinces, for instance, rice, cholam and ragi which are consumed in the south, wheat and so on in the north I tried to get a smooth curve, eliminating extreme and quite short period fluctuations I adopted the same method for wholesale prices on exports and imports and other commodities and the index number I have given is the result of, what I may call, these smoothed curves in respect of the various ingredients

Q—You will agree that the peasants of India largely consume what they produce?

A—Yes

Q—So, in so far as the rise in food grains is concerned the peasants have not benefited?

A—I do not think you can group all the agricultural population under one single head, 'peasants'. I think that you have to analyse the agricultural population into different classes First of all you have, what may be called, the village artisans who are only incidentally agriculturists The method of remunerating them varies considerably in the different provinces. For instance, in parts of Bihar they are remunerated by fixed grain shares of the produce In other places they are paid practically money wages varying with the quantity of service rendered These different systems must be affected very differently by the price movements in the different places Then again, we have to make a distinction between what are called landless people, as the term is generally understood, and the landlord or the ryot. The price movement affects these people very differently. I think it is probably a justifiable statement to make that the landless labourer in Bihar has not suffered from the rise of prices except for the short period when the rise was very great and the rise in prices was accompanied by a decline in the demand for labour owing to the bad harvests which occurred in 1918 19 During that period I may say, I was distributing famine relief in Bengal and I found there that while prices were rising, the wages, in many cases, of the landless labourers were falling because people who previously were fairly prosperous hired labour

only to harvest crops; so that the demand for labour fell off. Therefore, if you are going to enter into details, you have to take into consideration each of these classes which make up the agricultural population Finally, I should suggest that the movement of prices obviously affects the moderately prosperous cultivator very differently from the way in which it affects quite the poorest cultivator. The moderately prosperous cultivator is a farmer with a surplus to market and he benefits by the rise of market price The purely subsistence farmer—and there are not very many of these—is not affected If he gets nothing from outside and lives entirely on the produce of his land, he is not affected except in so far as he pays cash rent and to that extent he benefits because he must sell the grain in order to pay the rent

Q—Now, may I come to the central thesis which you submitted at the conference? You say there has been no increase in the real revenue raised by the Government?

A—That is stating the conclusion that I arrived at without noticing the qualifications which I made.

Q.—But broadly?

A—I may say that the Government benefited by the fact that it did not pay salaries and wages in proportion to the rise of prices To that extent it gained I have no means of knowing how far Government spends its revenue on commodities and services respectively If I could get the proportion, I can more correctly state the qualification under that head

Q—We are looking at the thing from the point of view of producers and these producers have to pay the tax, whether it is direct or indirect The central thesis of your paper is that—(of course with the qualification you mention)—there has been no increase in the real revenue raised by the Government of India But our politicians say—for instance, Pandit Madan Mohan Malaviya has stated so in the Legislative Assembly—that taxes have been increased to the extent of 60 crores of rupees Now you have raised a very important issue so far as this country is concerned Let us consider the position bit by bit Let us first take the case of a cultivator who owns and cultivates the land himself.

A—He does not pay any rent.

Q—Let us take the province of Madras or any other similar one He is the owner and cultivator of the land Of course, he pays land revenue to the Government In so far as these people are concerned they consume what they produce and you say they are independent of the rise in prices But they have to pay taxes and on the commodities they consume they have to pay land revenue Do you think there has been no real increase in the public burden that these people have to bear?

A—I feel some difficulty in answering this question without clearing up certain points The peasant obviously cannot merely consume what he produces and at the same time suffer, as you suggest, from increased taxation For example, in order to be affected by customs or excise duties he must purchase the dutiable goods by the sale of his produce He does not consume all that he produces and thus he will be affected by the price level The question then to be determined resolves itself into this whether the movement in prices affecting the sale value of his produce that is not directly consumed is such as to give him a cash balance after allowing for the price rise in respect of the things which he buys That obviously is a question the answer to which will vary according to the circumstances of the family budget But speaking broadly, I think we may say that he is benefited; because although you call him the owner, assuming he pays land revenue and the land revenue for the moment we will assume is paid in cash he has had a remission of taxation under one of the principal heads under which he is taxed

Q—But in respect of the commodities that he consumes, for instance, cloth, kerosene oil, matches, etc., which enter into the family budget, the position would be this on a rough estimate he is not better off or worse off in a majority of cases Would you agree?

A—No I think he has gained thereby The whole difficulty in making the broad statement is that prices, as you know, have fluctuated in the last 6 or 7 years with extraordinary violence and irregularity As far as I remember, in 1916-17, cloth went up in price very much. At that time agricultural prices were not rising Harvests were good and prices were not rising and the cultivator was undoubtedly very hard pressed by the rise in the

price of clothing. Shortly after that cloth somewhat cheapened in price, and prices of some other articles, for example, salt also came down and they began to substitute home made cloth to some extent Then agricultural prices went up with a rush That probably more than readjusted the difference in the case of the moderately prosperous cultivator.

Q—Now, to pass on to another class—the landless labourers Do you think they are paying more or less of real revenue?

A—I should say that on the whole they are probably paying less. That is on this assumption that in recent years there has been for many sections of the population a considerable increase in the alternative employments outside agriculture You had the opening up of new mines, railway extensions and so on You had more and more people employed in the manufacturing establishments All these things tend to make it easy for a landless labourer, if he does not get anything on the land, to go and spend several months elsewhere and earn good wages Of course there are many parts of India where that does not apply at all and other parts where it applies to a less degree But gradually by a permeating influence which is having its effect, the landless labourers have become better off to-day than they were some 20 years ago.

Q—Do you admit that the movement in prices is much quicker than the movement in wages?

A—Of course I agree In this country as in all other countries, it is recognised generally that prices rise before wages rise and when prices fall, wages do not fall at once in the same degree

Q.—Now let us pass on to another class Let us take the case of salaried people or people with fixed money incomes Do you think that in so far as these classes contribute to the revenue there has been a rise or a fall in the burden, or has it remained just the same?

A—There I would distinguish between the middle classes, *i.e.*, people with moderate incomes—either salaries or rents—which are relatively fixed and which cannot be easily enhanced and what I would call the really rich classes In India it seems to me, that the really rich class spends a much smaller proportion of its income on things like imported commodities

Q—But in so far as they are adopting the European mode of living, are they not affected just like the Europeans?

A—Not I think to the same extent For I think the amount of income spent on imported things is very much less than in the case of the middle classes The middle classes are more and more adopting western habits western forms of consumption, etc., and I think that they, in common with European recipients of fixed incomes, have suffered very heavily I think that is one of the reasons why we are hearing more in our days of the unemployment problem than we heard some years ago

Q—Now to pass on to another point. This country, you know, was not engaged in war I want you to express your opinion about the rise of prices. We want to analyse this phenomenon You think there was decrease in production during the war period and therefore the prices rose?

A—It is not easy to give a single comprehensive answer to that question. *Speaking quite broadly, I think production increased in some directions and* obviously diminished in others

Q—But commodities produced in India were largely in demand?

A—The difficulty arose thus You had very great potential demand, particularly for Indian products We assume for the moment that the internal demand remained unchanged There were two powerful influences restraining the producers from taking advantage of the greater foreign demand One was the lack of shipping and the other was the difficulty of financing In this country, as you know, exchange was for a time virtually pegged Exchange bankers were urged by the Government not to break away from the official rate of exchange The merchants were only financed as long as they could get cover When they could not get cover, they were not financed I know one big merchant in Calcutta went to the extent of importing a large cargo not even knowing how to get rid of it, so that it would serve as a cover for the export of his jute We must draw a distinction between India and Japan and America both of which made large fortunes by expanding their

trade To some extent India suffered. She suffered commercially very considerably by reason of the fact that she had not a free hand in selling those goods for which foreign countries were willing to pay

Q—The point is this Do you think that this rise in the cost of living or the rise of prices generally was due to the monetary policy of the Government of India? I may state my view frankly before you It is no use saying that there has been no real increase in the revenue collected by the Government of India. On the other hand, there is this state of affairs that the Government of India by the manipulation of its monetary policy diminished the real income of the people of the country by a policy of inflation of the currency Now, when we bear all this in mind, do you think it is maintainable that there has been no real increase in the revenue exacted by the Government of India?

A.—If I understand your question correctly—I am not perfectly sure that I have—it seems to me that there are two distinct issues The first is, you ask me whether the financial, or rather the monetary, policy of the Government of India did not impose a burden on the country?

Q—Yes, they financed the war by the creation of notes

A—Exactly. Their currency policy had a marked influence on the Indian prices.

Q—To that extent you will admit that the real income of the people of this country was exacted by the Government of India?

A—To some extent, certainly But it seems to me that the question is quite independent of the question which is discussed in my paper

Q—I want you to relate this movement in the rise of prices to the monetary policy of the Government of India during the war years and after the war

A—You suggest that the inflation of currency was a prominent cause of the rise in prices?

Q—Yes To the extent the Government of India adopted the policy of inflation, to that extent it diminished the real income of the people of the country. Therefore, one cannot say the real revenue collected by the Government of India has not increased

A.—At first by a very large coinage of rupees, and later, by an issue of notes against *ad hoc* securities the Government inflated the currency I agree that such an issue of notes is in effect a "forced loan" as it has sometimes been called, or, more properly, a concealed tax It is an additional source of income over and above that realised from the ordinary revenue

It does not follow that the two sources of government income together gave a greater real quantity of goods and services than were obtainable from the revenue proper in 1900 In my paper read before the Economic Conference I considered only the revenue proper, and not the income derived from loans or from "concealed taxation" When these are taken into account it is *quite possible* that Government was consuming more goods and services than before

Q—The point is this The Government of India was consuming a large number of goods and services. How was that possible if it did not involve an increase in the real revenue of the Government? In 1900 it was not engaged in war But from 1914 onwards it was engaged in war and it was consuming larger quantities of goods and services How was this possible if it did not obtain its increased revenue by the method of concealed taxation?

A.—In the first place I do not think we know with any degree of accuracy whether the Government was consuming more goods and services during that time, for which the Government itself might have paid But we know that Government was consuming much more of certain services, for instance, ammunition and so on We know equally well that other services were starved There was rigid economy in many directions It economised in Public Works and in various other ways Also a good deal of military expenditure, which of course resulted in increased demand for Indian commodities, was not paid for by the revenues of India That should also be taken into account

Q—By whom was it paid?

A.—By the Home Government.

Q.—The real cost of the war?

A.—A great many commodities which were produced in India and used for the equipment of the soldiers were paid for by the Home Government.

Q.—Except for the 100 million pounds, I do not think there is anything else.

A.—That has nothing to do with it. That was only to meet the immediate expenditure in respect of the interest. It was not capital expenditure. I am not denying that there was an increase in the consumption of goods and services. I think that there was and that is why, I think, somewhere in the note I have offered to the committee, I refer to what I call concealed taxation and to the dependence of the Government on the capital of railways. So that I only suggest that we do not know exactly to what extent the Government of India increased, during the war period, the consumption of goods and services. Of course, there is the other question as to how far the accumulation of funds in London was in effect a taxation at the moment on the people of India. It undoubtedly was to some extent.

Q.—To pass on to another point. Would you agree that the construction of this index number is defective because the prices quoted are not accurately reported?

A.—I do not know whether I can agree that the construction of the index number is defective. But the data from which it is constructed *are defective.* I think we can put more reliance in the figures I have offered than one might be inclined to think when you consider the inaccuracy of the other figures.

The President. Q.—Have you any experience of the system that prevails in these parts under which the landless labourer gets the use of a piece of land in return for employment for a certain number of days?

A.—I cannot say I have any direct knowledge of the particular practice in this district. But that kind of thing is characteristic of the forms of remuneration in many parts of India.

Q.—About the rise in wages, we were told by the members of the Municipal Board here that wages had quadrupled while prices had doubled, that is, since 1906. What do you think of that?

A.—I am not surprised to hear that. When you get down to particular instances on a rather small scale, you may find considerable discrepancies. As I have stated in my paper, my opinion is that wages have risen and they have not fallen. Public employees have benefited.

Q.—As regards the middle classes and the unemployment problem, is it not a fact that the average man is now getting a very much higher wage than he could years ago?

A.—You mean that the average graduate gets a higher real wage or salary than he did or merely suggest that he gets a higher money wage?

Q.—My point is this. The proportion of the graduate class to the places available is now greater than it was before.

A.—I have not got the material to answer that. I do not know what the output of the Universities was 30 years ago. I think nearly all the graduates at the present day get employment. But many of them hang on for a very long time in the hope of getting a superior appointment. I constantly find many of my students waiting for 2 or 3 years in the hope of getting a job on Rs. 150. Sometimes after waiting for a long time, when they do not get any employment and when their age reaches 25 or so, they try to get the post of a school teacher and so on.

The Maharajadhiraja Bahadur of Burdwan. Q.—Is it not a fact that the number in the waiting list is growing every day?

A.—My own belief is this: I am speaking without concrete knowledge—this is an *a priori* argument. The great rise of prices has to some extent increased the number of persons who can live on the surplus income from the land. That increased the number of persons who can obtain University education and the number of persons who can wait for some time in the hope of getting a remunerative post. That will, I think, increase the supply of these people.

The President Q—Is it your experience in Bengal and Bihar that the number of well qualified initial recruits has fallen enormously and that where you formerly had no difficulty in securing graduates, there is now a difficulty in securing school final men?

A—I cannot say that there is anything of that sort in Bihar

Q—In your note, you say "When the consumers belong to the classes with incomes not much in excess of the needs for the consumption of necessaries, the deduction made from income by the levy of a monopoly price may be at the expense of expenditure upon necessaries. In the social interest such monopoly price should be levied as far as possible only upon incomes with a margin above necessary expenditure". Would you apply that to the excise policy?

A.—I am afraid I have only read the questionnaire very hastily.

Q—Short of prohibition, have you got any alternative to suggest, looking at the matter from the point of view of taxation?

A.—It seems to me that it is impossible to discriminate with regard to the income of the person who pays excise duty through drinking

Q—You say in the social interest such monopoly price should be levied as far as possible only upon incomes with a margin above necessary expenditure?

A.—I think it is possibly an ideal, though of course there is another side to the question It raises a number of difficult issues Broadly speaking I think the present policy with regard to excise is sound It taxes income which in a majority of cases appears to be able to bear it On the other hand it has the disadvantage which I have referred to here, but of course every form of tax has some disadvantage I do not think that in order to avoid the evil to which I have drawn attention, the excise duty should be abolished and, short of abolition, I do not see any method by which you can avoid this possible danger Of course you can impose excise duty on whisky and champagne etc, consumed by well to-do classes But if you tax country liquors it does not seem possible to discriminate.

Q.—But as regards your doctrine at the end of the paragraph, it would not altogether be applicable to duties which are intended wholly or in part to restrict consumption?

A—It seems to me that the intention may be one thing and the realisation another.

Sir Percy Thompson Q—Would you agree that the prices of liquor restrict consumption?

A—Surely with some people at least it would

Q—But take the whole of India?

A—In a large number of cases it might, on the other hand it will not restrict consumption among those people who have some money to spend and who have become addicted to the habit to such a degree that they would rather sacrifice their other comforts than forgo their drink

Q—Have you set out deliberately on the policy of restricting consumption by increasing prices? Would you not consider whether this will affect their subsistence or not?

A—I should not raise this question at all If I may suggest a parallel, the point which I have mentioned here is a fairly well recognised point and has been prominently emphasised in other countries and in discussions over the relative advantages of the policy of high and low licenses I find there is one school of opinion which wants to decrease drunkenness through a policy of high licenses, and the concentration of drinking in a few places There is another school of opinion which wants to leave drinking as cheap as possible; believing that the great majority of people would not drink to excess. Thus moderate drinkers would not be penalised by having a very considerable amount of money taken from their pockets. I think, broadly speaking, it has been the experience in England and other countries. Speaking very broadly, England is a country which has been drinking-

for many centuries and drink has prevailed among all classes Really speaking, temperance is a matter of education. Personally, I think the right method to attack the drink problem in this country is not by forcible methods, but to educate the people and widen their interests till they realize that drink reacts harmfully so that they will gradually control themselves.

Q—I quite agree to that. Do you agree that the artificial increase in price and the curtailment of facilities has had its own effect in curtailment of drunkenness?

A—It has had two effects, while it restrained drunkenness it increased poverty among a few people. Rather broadly of course. It may be very few in the total I do not think you can avoid this.

The President. *Q*—Take, for instance, opium Opium in large quantities is very harmful. Is it legitimate to make the price of opium prohibitive?

A.—Putting aside of course such questions of smuggling and illicit consumption, I feel I cannot answer the question. I do not know whether a moderate consumption of opium is harmful So many people say it is not.

Dr Paranjpye *Q*—I refer you to the policy of the Bombay Government, *i.e*, direct limitation of drink It is reducing the supply by a certain percentage every year and keeping the income at the same figure. Do you think it is better from the point of view of taxation than the other policy by which the same amount is obtained?

A.—Purely from the policy of taxation?

Q—Yes.

A.—Do you mean it produces a larger revenue than the other methods?

Q—Supposing the amount of revenue is the same?

A—*I should prefer that the revenue were obtained without recourse to* duties at very high rates

Q—Will you please refer to page 7 of the Questionnaire, "human nature being what it is, the increased dearness of a particular article is more likely to have a definite effect on the consumption of that article than an income tax which would tend to be saved out of all the commodities" Can you say if this applies to the conditions of India?

A—Certainly.

Q—You have seen the difference between direct and indirect taxes. Would any indirect tax upon luxuries affect people as much as the direct tax?

A—If they do not consume any luxuries that cannot apply.

Q.—Would their craving for drink make them forgo their necessities in order to get it?

A.—I think in many cases it does. After all the drinking public in India is not very large compared with the population I understand that the drink habit chiefly prevails only among the industrial classes, which are admittedly small, and to certain castes which are very small compared with the total population But in a very large number of cases drink does not prevail at all. Therefore I say that the alternative is not presented in many occasions.

Q—In your second note you say "It is thus important as far as possible, even in the case of such services, to adopt the principle of cost accounting An increasing number of states supply a benefit that is both particular and general Elementary education and factory inspection are familiar examples". How does it apply to elementary education? I can understand if you charge high fees, but if you meet it by general taxes raised in a country?

A—I was not thinking of the experience of India only In many countries elementary education is financed by a combination of public expenditure and fees

Q—In England is it free?

A.—No. There are certain fees charged, I think. I am not perfectly sure, but I believe there are certain fees paid in the elementary schools for certain subjects. That was at any rate the practice a few years ago.

Sir Percy Thompson. *Q*.—No For the ordinary elementary education, it is absolutely free.

A.—I quite believe that.

Dr. Paranjpye. *Q.*—So far as a particular individual is concerned, he has to pay the education cess whether he has got a child to educate or not?

A.—Of course, what it comes to is this In paying this tax those who have children get something more in return from it than they have paid Supposing I have a son and I pay no fee but pay a tax as we all do, the cost is distributed between the person who has a son and the person who has not got a son. If it were a voluntary arrangement I should pay a fee equal to the amount of tax which I pay, but on the person who has not got a son it will be a tax.

With regard to cost accounting I think it is important to introduce it more generally than is now the case Very often Government does not know what its total outlay on a particular service is.

Q.—Oh yes, it knows What about the education budget?

A.—The education budget gives a lump sum, but I do not think it knows what expenditure it has incurred on a particular subject. Probably it does not know how much money has been spent on the teaching of economics. For example, Government at present does not know the cost of producing an economist

Q—My point is, your contention will not apply to education

A—I think it does apply

The President. *Q*—Would you now turn to the question of water rates? Please see question No. 15, do you advocate the plan suggested in item 3 of the question?

A.—If I may make a request to the Committee, I think it is possible that the Committee may give me another opportunity to supplement what I am saying now when they come to Patna Some of the questions want detailed examination. This question of water rates, I think, is very complicated.

Q.—You say that in raiyatwari areas when the irrigation is constantly provided the charge may conveniently be consolidated with the land revenue. Does not that give a large unearned increment to the landowner in respect of the selling of the land?

A.—That seems to me to depend on the manner in which the rate is fixed

Q—If you are giving him half the return due to the water, are you not increasing the value of the land? Would you take a portion of this value as a betterment tax?

A—It seems to me that the betterment tax might have certain disadvantages as compared with the income-tax

Q—Supposing you take a piece of land, which has largely increased in value because it has got the advantages of irrigation Would you not tax the added value?

A.—When a man gets a surplus due to irrigation it is possible to obtain some portion by an income-tax By means of a betterment tax, a larger share may be gained Therefore, if you wish to secure a large portion of the surplus a betterment tax would be more suitable On the other hand betterment tax is likely to be less elastic than the income-tax

Dr. Paranjpye. *Q*.—Then in some cases there would not be income-tax at all?

A—Yes

Sir Percy Thompson. *Q*—From an economic point of view, there is absolutely no reason why you should not collect by way of water rate.

A.—No I see no objection. But I do not see how you can have a water-rate that will yield a very large proportion of the surplus

The President. *Q.*—Assuming you cannot secure the consent of the raiyat to anything more than a moderate charge for water, what will you do? What they may be willing to pay is something as contribution to the capital cost?

A.—That rather raises the question of the use to which you are going to put the proceeds of the tax.

Q—Is it permissible to pool the resources of the irrigation enterprises or should you keep them entirely separate?

A—It is, I think, the right principle of finance in regard to irrigation works to treat each as a separate enterprise and only to incur expenditure up to the point at which it is balanced by income. But this principle cannot be applied to the case of protective works where the loss on irrigation may be offset by the saving of expenditure on famine relief.

Q—You would not consider the question of cost?

A—I think we should know whether we are gaining or losing.

Q—Have you considered the question of a satisfactory substitute for the present artificial classification of protective works?

A.—I have not done so.

Q.—In the case of charges for water, should not the charge for the more valuable crops be at a higher rate?

A—It is important not to discourage the cultivator from growing the more valuable crop In so far as the difference in the rate is less than the differential gain from the crop, this danger clearly does not arise.

The Maharajadhiraja Bahadur of Burdwan. *Q.*—You say that in the raiyatwari areas when the irrigation is constantly provided the charge may conveniently be consolidated with the land revenue Again that in permanently-settled areas the water rate must be levied separately from the land revenue. Can you tell me what is the practice in Bihar and Orissa at present?

A—The method as far as I remember varies in Bihar It is a separate charge. The method of charge is not always uniform

Q—Does the charge vary according to the amount of water consumed?

A—That is the principle.

Q—If that is so, then you can only base it on the capital value in the case of a new work of irrigation. But you cannot do so with a canal or a irrigation channel that has been in existence for some years

A—I do not think there is any difficulty in this.

Q—If you introduce that system in an old channel you will have to take the amount that you have already collected as water rates from the original cost. If you want to recoup your capital outlay and charge that water rate with the idea of recoupment, then you need not. This is your point, is it not?

A.—I agree

Q—Do you approve of the system of charging according to the varying quantities of water supplied?

A.—I do not think I have condemned it.

Q—What I mean is that you have condemned the system?

I take it that the system you have in mind is, for instance, that if a particular kind of pulse is grown, a particular rate is charged. You think whatever the crop may be, the water rate should be charged on the amount of water consumed.

A—Undoubtedly, except that that omits two conditions of importance. One is that different crops require different quantities of water. Therefore you may regard the crop as an index of the quantity of water consumed To that extent I agree The other point is this. If you fix water rates according to the cost of water supply, then the surplus gain from the water becomes a legitimate source of taxation.

Q.—If a raiyat does grow different kind of crops the amount that pays him will depend on the water consumed. Therefore I say that it is wrong to charge for different kind of crops Is it correct?

A.—Quite so.

The President *Q*—You say that the prevailing practice is to arrange revenue demands so as to fall as far as possible upon the members of foreign States, a consideration which is foremost in determining the expediency of levying export duties.

Have you any suggestions to make regarding articles of export that could be monopolised like shellac?

A.—No.

Q—You say further down that where the monopoly revenue is paid by the members of the taxing State it should be classed as a tax, even though the charge is not compulsorily levied. Would you do that even in the case of the State performing a service?

A.—Yes. Because I think in the whole discussion of tax classification or revenue classification, you must have some ideal as the basis of your classification of taxation. My ideal is the provision of service at cost price If under a modern individualistic economic system, certain individuals are able to charge a monopoly price, that is recognized as an evil and the State attempts to check it. The State is ready to prevent monopoly and tax a monopoly where it can. If the State undertakes a service and levies a monopoly profit, why should then the State refuse to call it a tax?

Sir Percy Thompson *Q.*—Would you say if that is equally true in the case where prices charged by the State are less than those which could be charged by the private enterprise?

A.—Whatever economies in production the State may achieve from its monopoly should in an ideal condition be used to benefit consumers It may be justifiable to levy a tax upon particular consumers, but it should be frankly admitted to be a tax.

The President. *Q.*—Do you think in the case of State Railways, it is safe to take the basis of profits every year, which may vary?

A.—On that basis there may be large profits for one year and small profits another year. Obviously you cannot judge from year to year, but must take for series of years

Q.—Would you regard a normal dividend as equal to what the ordinary investor gets out of a sound railway concern?

A—You mean when private persons subscribe to the State?

Q.—What I mean is this The one per cent which the Assembly has recently voted was based on the belief that the ordinary return of a sound railway is one per cent more than the return for Government paper Therefore the Assembly considers that they are entitled out of their railway enterprise the same return as the investor gets in England They think that when the railway yields a profit they are entitled to one per cent.

A.—Quite an unsound argument I think.

Q—With regard to the question on Registration and Court-fees, if the fees paid for the registration of documents do not pay for the service above the rate of interest on Government borrowing, do you regard that as a commercial service or as a tax?

A.—If the fees paid are not paid in respect of what you may call a direct service, I would classify it as a tax.

Q—If the amount collected is less than sufficient to meet the charges, is there the element of tax?

A.—I think I should classify the whole thing as a tax. But it may not be an adequate tax. In so far as the amount paid is not for an utility or service which the person voluntarily incurs, it is a tax.

Q.—You have got a registration office and in order to get your title registered and the document entered in a volume you pay a fee. It corresponds to safe custody. Is there any element of tax in that?

A.—I think you are getting to a very fine point. Of course, all revenue may be said to be collected in order to return a service of some kind. But whether this service of registration is the kind of specific benefit which a person would purchase supposing a State did not exist is doubtful and where you get doubtful cases of this kind, it is better to classify them as tax.

Q.—How is it doubtful? In England you go to a solicitor for doing a similar thing The State relieves you of a charge which you would in any other country have to pay. The State undertakes to do it for you, and so long as it does not make a profit out of the amount you pay, then does any question of tax arise?

A.—It is slightly different for this reason that the necessity for the registration arises from some Government regulation If Government passes a regulation that a document has to be registered and that it may be done at a private office and if the man goes to a private office, it is not a tax. In that case the need for it arises from a Government order. That comes under the head which I have classified as specific service which would not be enjoyed apart from the compulsory action of Government Where Government compels a man to do a certain thing it is not voluntary and if it provides a means for performing that action, then I think it ought to be classed as a tax.

Q.—You do not accept the definition of tax as a compulsory payment for which no specific return is received?

A.—That is a loose way of defining After all that does not cover things like monopoly profits, which I class as taxes. You go and buy at a Government tobacco shop and pay twice the cost I analyse that into tax and price.

Q.—You analyse the cost of the tobacco into price, which is the cost of the service, *plus* the tax, which is the monopoly profit. Assuming that there is no monopoly profit, there is no tax.

A.—But then comes in the element of compulsion If you pass an order that you shall do such and such thing against your will and then you provide a means for complying with that order, then it is a tax

Q.—You recognise it as a tax, even if there is a specific return for the whole amount?

A.—Yes, if the consumption of that service or utility is not voluntary.

Dr Paranjpye *Q.*—You speak of compulsion. There is also the convenience of registration

A.—Certainly. I have already said that it is very difficult to distinguish when you come to marginal cases of this kind. It is difficult to draw a line

Q.—I only point out that registration gives him certain benefits.

A.—Yes, just like education.

Q.—In England registration is not compulsory We may distinguish from the other man On the other hand, on all future occasions it is much simpler to have it on the register instead of merely having the title deed. There may be the case of the man paying something more to get his documents registered privately The other man is probably paying less Would you say that the element of compulsion in both the cases—the case where it is beneficial to him and it is done cheaper and the other case in which it is expensive to have to do it is such that the charge made as registration fee is a tax?

A.—No But I think we cannot distinguish these cases quite clearly. Again I come back to what I have already said and say that connotatively it is easy and denotatively it is difficult. I would regard one as a fee for a commercial service and the other as a tax.

The President *Q.*—Have you reduced your definition of a tax to a formula?

A.—No It is a little difficult. I spent a good deal of time in trying to work it out. The difficulty is that you are trying to combine a number of different ideas.

Q—Now we come to the interesting discussion on land revenue. You say "if the produce of land is largely marketted and if the demand for this produce is highly inelastic any cu[illegible] ise of price which may have the effect [illegible] sive margin to cultivation. A part of [illegible]" In other words, in this country the land revenue can be shifted?

A.—I think so, under the circumstances.

The Maharajadhiraja Bahadur of Burdwan *Q*—I do not go into the details. I take it that you would give us a formula of what you call a tax. But the general trend of your note on land revenue is that you consider it to be a tax?

A.—Yes I class it as a tax.

Q—Then do you think it is a heavy or light tax?

A.—It is difficult to answer a question like that in one sentence but I should say it is a light tax.

Q—What are your grounds?

A—I think it is a very light tax in a majority of cases. Because when you say that a tax is heavy or light it seems to me that you are asking how much does it detract from the income which the man paying the tax would enjoy in the absence of the tax Now, in the absence of land revenue, as I have suggested, the person who in a ryotwari area actually pays the tax, that is a cultivator, would pay at least an equivalent, under a regime of competition, to a land-holder Therefore, in effect, where the tax has been in existence for a long time, he does not pay anything at all; there is no detraction from the income which he would enjoy, suppose he did not have the tax.

Q—As regards the difference between the ryotwari holder and the tenant in the permanently-settled area, in the ryotwari area, whatever may be the percentage that the tenant pays, it is a direct payment to the Government In the case of the permanently settled tracts, it is very difficult to get at the real percentage. Perhaps the zamindar pays very heavily so far as he is concerned. But if you take into account what the tenure holder in the permanently-settled area pays to the zamindar, you may say that it is not heavier than what the man pays in the ryotwari tracts. In a case like that what is your suggestion with regard to the man who pays comparatively lightly? How would you meet the inequality?

A.—The difficulty is that you cannot distinguish between a man who has a real surplus and the man who has invested the money You have got a man, for instance, who has paid for the land some long time before It will be a real surplus to him But you cannot go back now You cannot change the existing methods, though you can tackle future cases.

Sir Percy Thompson. *Q*—With regard to the illustration I have given, can you give any economic reason why a man making a profit of Rs. 4,000 out of a tenure should not be taxed?

[illegible] the public have had a [illegible] and they have invested [illegible] we will reverse our [illegible] seems to me you are treating that man rather unjustly because you have encouraged a reasonable expectation to the contrary

Q.—Don't you do that every time you raise any tax?

A.—Therefore I say it should not be done at once You can start doing so from now and go on gradually You must allow a reasonable time for the adjustment of things If you tax him lightly at present and give him a warning that you are going to increase the tax, I think it is justifiable

Q—Now I will make one or two assumptions. The first is that land revenue is in every case less than the economic rent I do not now go into the question whether the State is the landlord or not or whether it is a rent or tax. Then, can such a payment be called a burdensome payment? You are a person having

no land. I have got land and I make a payment which is less than the economic rent. Now can you say that as compared with the other man, I am making a burdensome payment, when I make a payment less than the economic rent?

A.—The answer is obviously, no. But the balance, after paying the tax to the Government may be so little as to leave the man no real surplus. That is, suppose you have got a cultivator who has a piece of land for which he pays a tax or rent which is less than the economic rent. Now you ask, 'is that in any sense a burden on the individual?' It may be a very real burden indeed and any enhancement of it may be an excessive burden

Q—Now suppose you have got a small shop in Benares, say a quarter of the size of this room, and it will be let for Rs. 500 a year. I go into that shop and turn it into a cotton factory for which it will be quite unsuitable and I find it very burdensome to pay Rs. 500. But does it really make out a case?

A—Therefore, my whole line of argument would be this: that to argue as to the burdensomeness or otherwise of the land revenue from the effect on a particular person in a particular situation is completely fallacious. I agree there.

Q—I do not pretend to know much about the principles on which land-revenue is levied But I understand it is levied by taking a certain percentage of what is called the net assets, say 50 per cent of the net assets. The assets consist of the gross produce less the cost of production. Is this equivalent to the remuneration for the cultivator's service *plus* the surplus?

A.—The net assets, I take them to be the gross produce *minus* the cost of production including the cost of keeping the cultivator's family at the standard of life which corresponds to that of the marginal cultivator.

Q—I think it is only gross produce less cost of raising that produce.

A.—He uses his labour.

Q—Yes. He must pay his family a wage. He feeds his family which is practically wages

A.—Yes The cost of supporting the family at a rate determined by the standard of living of the marginal cultivator should be taken into account.

Q—So if you take 50 per cent of that you are not trying to get at the economic rent, because you are taking 50 per cent of the surplus, whereas you can take the whole of that surplus leaving the cultivator's profit. So that, the land revenue collected must be below the economic rent. Now suppose it is higher than the economic rent. Then surely one of two things must happen. The land must go out of cultivation or the people must live on a lower margin of subsistence. That being so, would you say that the system under which land revenue is assessed is right or wrong?

A—First of all, I think that the system under which the land revenue is assessed is nothing like so precise in the working. For instance, in deciding rents in Bengal there is no attempt to get at the net assets really. The reference [illegible]

of the same province I know many settlement officers and I have read several settlement reports and they have the vaguest ideas as to what should be included in the cost of production. Sometimes they omit very important items and in practice you get very varying results In some cases the assessments have been much below the total economic rent and in other cases they are much higher. Of course, they try to be on the margin of safety. It is a historical fact that the land assessment has often driven lands out of cultivation.

The President *Q*—Can you give any instances of that?

A—The Pringle settlement in Bombay.

Q—That was long ago.

A.—That is why I say that it is a historical fact. But probably in individual cases you can find that to-day also.

Dr Hyder. Q—We have also got the book, "Forty Years' Progress in the Madras Presidency," written by Srinivasa Raghava Iyyengar.

The President.—That also takes us half a century back.

Sir Percy Thompson. Q—Assuming that all these calculations are made correctly, is it still a wrong method to arrive at the land revenue?

A.—I agree that you cannot at present get at the assessment of land revenue without taking into account the unit of cultivation.

The President. Q—Where the land revenue is a heavy burden, is it because of the uneconomic nature of the holding?

A—Yes. It may not always be true that low assessments are for the benefit of the cultivator It is said that higher rents sometimes compel a better type of cultivation and that makes people more prosperous. Such statements are only half-truths; but they are not negligible. Higher rents tend sometimes to good cultivation and prosperity of the people

Q.—Professor Jevons has defined the land revenue as a tax on rent.

A.—Broadly, I think that is correct It seems to me that when you come down to economic facts it is hardly ever possible to pin ourself down to broad statements like that without a certain amount of reservation One point which I would mention in this connection is that I do not think land revenue falls only necessarily on the surplus That is a fundamental fallacy so many make when they call land revenue a rent That is the reason why I call it a tax.

Q—In your note you say 'In the case of a long standing impost on surplus income from land, as with a new impost on waste land, the principal fact of importance is that it prevents a rent-receiving class from coming into existence and so far does not reduce income per head' Is it the long-standing impost that prevents this?

A.—What I was thinking of is this. Suppose you have land with different degrees of fertility already cultivated and developed The rent-receiving class will be in existence You may impose a tax and drive them out. But they are in existence. If you had an absorption of surplus by a public body for some considerable period in the past, so far the people who might have lived on that surplus *do not exist.*

Q—I thought the implication was that the permanent settlement prevented a rent-receiving class from coming into existence

A.—No It is exactly the opposite. But the permanent settlement merely meant that Government refused to absorb the economic rent in the future or to take any increments It has to that extent enabled a rent-receiving class to come into existence

Q—In your paper to the Conference, you have referred to the land revenue being a commercial service How is that?

A.—I was merely thinking of the alternative between the land owned and managed by the State and land which is privately owned and managed by landlords or farmers To that extent the land is a commercial service and the revenue represents the working expenses. Any balance that is left is the taxation.

Q—If land revenue is a rent?

A.—It does not matter whether the profit from a commercial service is a rent. You may have a Land Development Company and its profits are merely rents.

Q—But it is a commercial service in case the State is the owner of the land?

A—Yes. It must have some control over the land I should like to make myself clear When I protested against the controversy as to whether the State is the owner or not, I did not shut my eyes to the fact that the functions which it performs relative to its ownership are quite distinct in many cases from the functions performed by it as Sovereign

Q.—You have referred to the taxation on land values.

A.—I should prefer to deal with that subject in detail when you come to Patna.

13th January 1925.

Delhi.

PRESENT :

Sir CHARLES TODHUNTER, K.C.S.I., I.C.S., President

Sir BIJAY CHAND MAHTAB, G.C.I.E., K.C.S.I., I.O.M., Maharajadhiraja Bahadur of Burdwan.

Sir PERCY THOMPSON, K.B.E., C.B.

Dr. R. P. PARANJPYE.

Dr. L. K. HYDER, M.L.A.

Sir GANGA RAM, Kt., C.I.E., M.V.O., Lahore, was examined.

Written memorandum of Sir Ganga Ram.

Qs. 1 to 8.—I don't consider any useful purpose will be served by undertaking an investigation on a large scale or legislating on the lines suggested in question No. 6. If there is any legislation or investigation required, it is in regard to the methods of improvement of the production. The present statistics are fairly reliable so far as they go, but there is no doubt that the area and the yield are both capable of immense improvement and it is on these lines that I strongly advocate the investigation as distinctly pointed out in my lecture at Simla, and in my book "Agricultural Problems of India" copy of which I have already supplied.

Q. 10.—Can best be answered by the Financial Commissioner. But I strongly object to the land revenue being called a tax, because no tax can possibly be justified amounting to 50 and 65 per cent, as it is now levied on land. In all the Government publications that I know, the land revenue is always called a share of the production which Government is entitled to take as super-landlord.

Q. 12.—The revenue from Forests is certainly misleading, as most of it is derived from the sale of old trees, in which the Forest Department had no hand, yet that department gets the credit of it.

Q. 13.—The system of decentralization should be largely introduced for inter-provincial dealings of revenue. Every province should have full powers of dealing with its own revenues, giving any share to the Government of India, that may be fixed. So far, the province of Bengal enjoys the permanent settlement producing revenue quite inadequate to meet expenses and the Government in the past, have been taxing other provinces most unfairly for meeting their demands for carrying on the work of the Government, and the same remark applies to irrigation works as the canals of Bengal are mostly being run at a loss, and the Punjab canals are paying the deficit.

Qs. 15 and 16.—In the Punjab where new lands are being brought under irrigation, the assessment of land revenue is made on a fallacious principle. In other words, the revenue is assessed on the production of land while that production is due to the water supply for which the water rate is separately paid, thus, the demand of such heavy revenue is a fallacy in circle.

Q. 17.—The result of all Tenancy Laws, to which may be added also, Law of Pre-emption and Land Alienation Act, tends to retard the progress of production, and I am strongly of opinion that the land is capable of yielding immense production if all these retarding influences are taken away.

Q. 21.—India is most unsuited for direct taxation. The majority of people are not educated, and I strongly recommend that such measures should be thought of, which may bring necessary revenue to the Government and yet the people may not feel the effect.

Q. 23.—Amongst direct taxes, the land revenue and the income tax are the most unpopular, especially the latter.

Q. 24—Tax upon entertainment and one on railway tickets will be a good source of indirect taxation.

Q. 26—I don't know what is meant by *whole scheme* of taxation The main source of taxation is land revenue which I wholly condemn I have already given two methods of dealing with it, one, the excise duty on the surplus by charging at the railway station, and the second, by redemption by land revenue at 3 per cent I have submitted literature to explain both the principles.

Q. 29—The tax should be indirect.

Q 31—Such taxes will be very difficult to realise and the cost of collection will be very heavy

Q 33—Very objectionable

Q. 34—As it is not stated in the Annexure "E," whether the figures of percentage in England are pre-War or after-War, therefore I can not answer this question

Q. 38.—The income of landlords derived from agriculture and subject to permanent settlements must be taxed The income of such peasants-proprietors who till the land with their own hands, should be exempted The net income of landlords who do not till the land with their own hands and employ tenants either on cash system or participation (*Batai*) system, should be taxed, provided their income is more than two thousand, but all this is subject to the condition that the land revenue is abolished

Q 39—The estimate given in this question seems to be mere guess, and therefore I cannot give any definite opinion.

Q. 40—The limit of two thousand might be reduced to one thousand, provided the tax is levied more equitably.

Q 44—My opinion is that all Government securities should be income-tax free, as it will facilitate the further circulation of these papers in commercial undertakings, as a man may not keep the security all through the year which would involve complication at the time of making statement of income

Q 45.—I have already stated that the tax free security should be encouraged In addition to the present system of the securities, I suggest a method which will further induce people to invest their savings in the Government security and this method is, that instead of paying the income-tax half yearly, the total value should be calculated at the rate of interest given on the security (compounded). For instance, money will double itself at 6 per cent, half yearly rest, compound interest in little over 11 years, therefore it might be suggested that the form of promissory note might be "Government of India promises to pay double the value of this coupon after 12 years or so, as the case may be." This will lessen the work of the Finance Department and the Tax Department It will encourage the people to invest the money for the benefit of their children or expenditure of education and marriage in a convenient form.

Q. 47.—I prefer assessment on the previous three years' average so as to minimise the trouble which people are put o in having to deal with the income tax officers every year.

Q 48—The only article on which the direct taxation can be obtained and which touches all classes, is salt, and there will be no harm, notwithstanding, that there has been good deal of opposition in the Legislature, in regard to the increase of this tax The net additional burden on the poor is very small and the tax can be safely raised to Rs 2, and the charge should be in the average at every railway station, as I had advocated some time ago The denatured salt for cattle should be devised, which will enhance Government revenue to any great extent.

Q. 49—I see no objection in charging excise duty on several of the articles mentioned in this question.

Q. 58.—I accept the statement that it is most difficult to devise any other duty in general incidence, less oppressive than salt tax.

Q. 59.—I am in favour of action on those lines.

Q. 61.—Total prohibition is not possible. In case of adoption of the policy of total prohibition, there will be illicit distillation.

Q. 97.—It is perfectly correct that the prosperity of the cultivation is largely affected by the land tax.

Q. 98.—I perfectly agree with the four canons of sound taxation advocated by Adam Smith.

Q. 100.—The fractionisation of holdings is a serious item and is likely to cause a very great harm to the question of production. In this respect I draw the attention of the Committee to my lecture delivered at Simla in 1923, see pages 45 to 47.

Q. 109.—I agree entirely with the criticism on the octroi duty, and yet no satisfactory form of tax for the local need has been devised. No objection to the terminal tax but the octroi should be retained, only exempting the collection on the small articles.

Q. 112.—The house tax and rent tax may be levied, but certain minimum limit should be laid down below which the tax should be exempted. In all cases the house occupied by the owner should not be taxed.

Sir Ganga Ram gave oral evidence as follows : –

The President. Q.—Sir Ganga Ram, you are a practical agriculturist and your speciality is land revenue?

A.—Yes, Sir.

Q.—You don't consider any useful purpose will be served by undertaking an investigation on the lines suggested in our question No. 6?

A.—I do not think any useful purpose will be served by any such investigation. If any investigation is required, it is in regard to the methods of improvement of production.

Q.—You perhaps agree with the statement made recently by Mr. Baldwin that the prosperity of a country depends on the people themselves rather than on the Government?

A.—Yes. But it depends on how much increased effort people can put in. All depends on what brakes you put on their efforts. I consider that the present system of settlement of land revenue is a great brake.

Q.—Do you consider the present statistics reliable?

A.—Yes, they are fairly reliable.

Q.—What sort of investigation would you prefer?

A.—It is in regard to the methods of improvement of agricultural production.

Q.—You believe that the produce can be immensely increased?

A.—Yes, it can be immensely increased.

Q.—Have you read Professor Bickerton's remarks? I will just read it for you. He says "in New Zealand it has been proved by actual test on a large farm, that a man by his own labour, using the best appliances, produced enough grain, meat and wool to feed and clothe fifty people. What was required in India was that the people should have clear economic views and clear ideals and that they should be able to put those ideals into practical use by taking advantage of every scientific principle that is known".

A.—You will find in my book that I agree with the finding of the Irrigation Commission Report that .4 of an acre is quite sufficient to produce enough food and other necessaries for one person.

Dr. Paranjpye. Q.—Irrigated or non irrigated?

A.—I mean irrigated.

The President. Q.—What about the application of modern appliances?

A.—It is a mistake blindly to say that modern appliances are going to do any good. They are to a great extent unsuited to this country.

Q.—Why, you have yourself made certain remarkable experiments with modern methods of irrigation?

A.—Yes, only with modern methods of irrigation, but not with any appliances. I have always found our own appliances quite good enough for the present purposes. There are lots of things which can be done, apart from irrigation, for example, the system of preserving *bhusa* in silos I have often drawn the Agricultural Department's attention to these facts At the time of famine, people suffer not so much for want of food for themselves, but they suffer because their cattle die for want of food When I say that the produce can be enormously increased I have in my mind chiefly the system of rotation The Agricultural Department has not yet been able to solve this question At present one thing that is mostly ignored is that by producing the same kind of crop over and over again the land gets deteriorated to a very great extent. We must find out what chemical properties the soil loses and what chemical properties it gains by having a particular crop so that we can devise a scientific rotation by which the soil may retain its fertility

Dr. Paranjpye. *Q.*—Is it not fairly well known that if you plant pulses alternately the fertility of the soil will be retained?

A.—Yes to a certain extent, but I have seen generally people going on planting the same crop such as wheat, the reason being that the *rabi* crops require very little water as compared with the *kharif* crop I therefore say that by judicious and scientific methods of rotation, you can keep the fertility of the soil and get better yield

The President *Q.*—We understand that you are entirely opposed to the present system of land revenue?

A.—Yes, Sir

Q.—At the same time you say in your pamphlet that the taxation is very light?

A.—No doubt it is very light, but it is unevenly and unfairly distributed.

Q.—But you do not call it an intolerable burden?

A.—Anyhow it seriously retards a man's effort I won't speak of permanent settlement here as in our case we have not got permanent settlement, but I know that when the periodical settlement is approaching, people begin to get lazy and in fact they purposely leave off cultivation so that they may show less average. This they begin to do four or five years before the settlement is due.

Q.—That is one of your objections would you tell us the other objections?

A.—The other objections I have given in my book Land Revenue often weighs very heavily on the people and I have quoted Lord Curzon's resolution on revenue policy. " nor can it be denied that upon the incidence of the *land revenue collection must the prosperity of those agricultural classes* in a great measure depend" It is clear from the above that it affects the poor more than it affects the rich

Q.—May I invite your attention to the quotation you have made regarding the fluctuating assessment? I think it exists in a few districts

A.—Yes, only in a very few districts, otherwise fluctuation in land revenue is not possible

Q.—Again, you say the Government of India have attempted the gross produce standard It was the suggestion of Mr Dutt, it was not the system followed by the Government of India

A.—Land revenue is based I think on gross produce of the lands. There is no justification to charge 65 per cent on net assets, or one fifth the gross produce.

Q.—But where?

A.—Why, it is so in some provinces, I think 65 per cent in the United Provinces and 50 per cent in the Punjab

Sir Percy Thompson *Q.*—Even that 50 per cent is not on the gross produce, but only on the net produce.

A.—I think on the share of the landlord, but I understand it is based on the assumption that the Government share is one-fifth of the gross produce. That is the assumption on which the land revenue is based.

The President. *Q.*—It is Mr. Dutt who is responsible for it, but not the Government of India.

A.—Then it is only Mr. Dutt's assumption.

Q.—In the summary of the conclusion the Government of India say "in areas where the State takes the land revenue from the cultivators, the proposal to fix the assessment at one-fifth of the gross produce would result in the imposition of a greatly increased burden upon the people".

A.—I thought it was the Government of India's assumption.

Q.—No, it was Mr. Dutt who said one-fifth. The Government have said in the "Land Revenue Policy of the Indian Government" that "Mr. Dutt, when speaking for himself urges that, the impracticable rule of realising one half the net produce or one-third the gross produce be abandoned, and the rule of fixing one-fifth the gross produce as the *maximum of rent* be adopted". So you will see that if the Government of India were to adopt Mr. Dutt's proposal it would be more

A.—Yes

Q.—Now, can you say the reasons why a very large portion of the land is left fallow?

A.—One is the fragmentation of holdings, which is responsible for lot of land being left fallow. There are cases where the owner leaves his land because the area is too small and goes elsewhere to earn his livelihood, and pays land revenue still keeping possession of the land There are thousands of strips of land lying fallow.

Dr. Paranjpye. *Q.*—Why?

A.—*If a man has got a share, he simply keeps it just as a hereditary memento.*

Q.—You mean, for the pleasure of possessing it.

A.—Yes I think you have read Dr. Mann's article He said within 72 years of British rule holdings have dwindled down from something like 27 acres in the average to half an acre or one acre This question of possessing land has a very great significance in village society The other day in the Punjab a sweeper's wife was insulted by a peasant's wife who said that the former's husband did not possess any land and hence she had no status. In the next auction the sweeper bought half a square of land equal to 14 acres for Rs 35,000 simply to meet the taunt of the peasant's wife. She said "now that I am a *malik* (the part-owner of the village) you should not talk to me again in the same way as you did". In this way, the pride of the inhabitants of a village makes them keep the land, and the land remains fallow as the area is too small and they go to serve elsewhere.*

The President. *Q.*—What do you think of the policy of charging only when the crop grows?

A.—That is what we call the fluctuating policy. That is a better policy than the policy of anticipating 20 or 30 years average, though it is not an ideal.

Q.—What do you call it; a forward or a backward policy?

A.—I know in many cases a lot of corruption takes place The settlement reports are very defective as you do not tell the people how to increase their produce. You simply take the average. But if you take the settlement of the whole district you will find the charge per acre very unevenly divided The settlement report should deal with defects in the yield, causes and cure In fact there should be a development chapter to conclude the report

Q.—Then you mean to suggest that the penalty is put on the poor cultivator. That is quite contrary to the principles of settlement Is it not?

A.—Yes

*That is the reason why I advocate the French system that is, that one plough land should not be partitioned.

Q—You want to tax at railway stations on the surplus of gross produce. Would not that deter people from producing a surplus?

A.—It will make no difference. Every man wants to get more. The tax will not be felt by the people Fluctuation in price is so great that it covers it many times over I tell you an instance; cotton is grown and there are fluctuations in its price. You do not know at the time of sowing what will be the price of it when it is sold It entirely depends on the foreign demand Every charge is calculated on the foreign rate *minus* all expenses

Sir Percy Thompson *Q*.—Supposing it is calculated on the surplus, that is to say, Government does take one sixth, will it not be a deterrent?

A—I have already said that this method is suicidal for those who produce large quantities, but it is an ideal system for the poor.

The Maharajadhiraja Bahadur of Burdwan *Q*—Just now you said that one of your objections to the present system of settlement is that four or five years before settlement takes place, the people do not pay the same attention to their cultivation in order to prove that their rental or produce is not so much as the Government think it to be Apart from the remedy you have suggested by abolishing land revenue, have you got any other remedy to suggest?

A.—I have given you two methods of dealing with it, one, the excise duty on the surplus by charging at the railway station, by which you are sure to get *double the revenue which you at present get*, (see statistics in my pamphlet), and the second, by redemption of land revenue at 30 years purchase

Q—What I was going to say is this You say that in the last four or five years, the people become lazy for the set purpose, namely, to prove that the land did not produce as much as the Government may think it to have produced, so that they be benefited thereby What I want to ask you is suppose land revenue *is not abolished, how would you stop this? I take it that the actual producer* does not bring the crop for sale.

A—No He brings it to the "mandi" for sale For instance wheat is being sold for Rs 4 delivered at station, and if you tax at the railway station eight annas, the mandi rate will fall to Rs. 3-8-0 so that all the people living in the vicinity will get the benefit of it

Q—At the same time you will get a bigger revenue?

A—Absolutely double the figure I have already proved it in my book

Q—Very often this attack is made that the permanently settled areas are very lightly assessed Just now you mentioned that 65 per cent is charged in the United Provinces and 50 per cent in the Punjab When you made that statement you had in your mind assessment in temporarily settled areas?

A.—Yes

Q.—Have you any idea what the average is in permanently settled areas in the United Provinces?

A.—I have no idea I know in certain places, for instance Benares, the average output is much less than in the Punjab, yet the soil admits of greatly increased production

Q.—*Does it not depend upon the soil?*

A—No. God has given United Provinces good soil and good rainfall also

The President *Q*—Then you say that soil in the United Provinces is much better than in the Punjab?

A.—Far better

The Maharajadhiraja Bahadur of Burdwan *Q*—Is it not a fact that rice is more grown in the United Provinces than wheat? What I was trying to get at is why should they not grow wheat as you grow it in the Punjab?

A—I do not know.

Q—One more point You just now mentioned to the President the result of survey and settlement and said that it is not worth the paper on which it is written What is your main objection?

A.—My main objection is that the settlement officer ought to show to the people what developments are necessary in a district and what developments are possible. The people are not sufficiently educated about the advantages of rotation and improved methods of agriculture. At present the settlement officer never takes the trouble to investigate this side of the problem.

Q.—As you perhaps know, when you have ordinarily survey and settlement in a district, (I am only speaking from my experience of Bengal), generally what happens is this, the tenant gets defined his plot of land, the landlord knows the number of bighas of land occupied by his tenant, he gets the benefit of settlement in this way. In the same way the tenant gets security and gets his boundary put right. In Bengal the recent settlements are criticised for two reasons. First of all in certain areas the incidence of recoveries is very heavy. For that reason it becomes very expensive. Another reason that the thing is so prolonged that a great deal of irritation is kept up for many years.

Just now you said that the Settlement Officers do not demonstrate to the people what profit they get out of their lands. So far as I understand, the survey and settlement department is not responsible for this, I think the agricultural department is responsible for demonstrating to the people what a particular field can produce, what particular crop and so on. The settlement department is only meant to define the position of the landlord and the tenant. May I know what other thing makes the survey and settlement unpopular apart from the fact you mentioned?

A.—I am quite aware that the function of the settlement is to define the claims of different parties. But I was referring to the produce question when I said that the settlement is unpopular. My chief complaint is that the settlement officers never even try to say in what way further development is possible.

Dr Paranjpye. *Q.*—Coming back to the question which Sir Percy Thompson asked about the discouragement of putting in labour and capital if produce is taxed; suppose a man puts in Rs. 100 and as a result gets Rs. 300 additional crop, you will say that Government should charge 50 rupees out of that additional crop. If he puts in another hundred, that hundred may not bring 300 but it may probably bring less. Supposing it brings only 200, Government will charge on that one-sixth, that is 33, so that the net profit he will make will be 166. Supposing he puts in another hundred and that brings 150, Government will charge 25 rupees so that the net profit will be only 125 and puts another 400 and profit is only 120, I mean the gross return, Government will charge Rs. 250, so that the only Rs. 100 will remain with him. What do you say to this?

A.—Provided your hypothesis is correct in every case, I tell you that if you put in a hundred rupees the benefit will not be only obtained by the immediate crop, but it will go on giving further increase next year. The result will not be for one year only.

Q.—I do not mind if the benefit is spread over five years?

A.—I am afraid this hypothesis will not hold good in produce.

Dr. Hyder. *Q.*—You say that the produce will be indefinitely good?

A.—I cannot say that.

Q.—Then?

A.—I cannot exactly say the result of the produce for so many years to come. We cannot foresee that. In the Punjab our best revenue officers could not say that. For instance, Sir Denzil Ibbetson, then Mr. Ibbetson, fixed 40 rupees an acre, as the reserve price of colony land, whereas the land is worth now-a-days a thousand rupees an acre. He could not have foreseen this result.

Q.—I think before irrigation?

A.—No, after irrigation.

Dr. Paranjpye. *Q.*—There is a tendency to put less capital into lands if the produce is charged. Is it not so?

A.—Anyhow the tendency is only increasing and not decreasing. With all our education and scientific developments, the land is sure to give more than what you are getting now.

Q.—Can this process go on indefinitely?

A.—I cannot say that All I can say is even our best Settlement Officers did not know that

Dr Hyder. Q—By a certain amount of money you raise a certain amount of produce Do you mean to say that if you double the amount, you will get double the crop?

A—I do not know if it is right for me to give any answer on hypothetical questions like this

Q.—Your proposals will discourage further cultivation?

A—No, it cannot.

Q—We are not talking about the value of the produce; what I wish to suggest is whether you can double the produce by doubling the expenditure?

A.—There are hundreds of ways by which the money value can be doubled. It is not necessary that the wheat crop should be doubled, but I may grow a more lucrative crop.

Q—If one man grows a lucrative crop, everybody may do that?

A.—That is why, when I say put in more capital and increase the produce, I mean the increase of the value of the produce The value of the produce can be increased indefinitely, but that also is subject to limitation as I have pointed out.

Dr. Paranjpye Q.—You say only when the produce comes to the railway station, it should be charged. Don't you know that all produce does not come to the railway station?

A—Yes, but that is the easiest way of taxing without any cost To tax at the railway station, no expenditure need be incurred Only you have to add another column in the railway receipt as imperial charge

Q.—In that way you will exempt all other people who do not bring their produce to the railway station?

A—But that will be a very small amount I do not think it is so very difficult to find out the quantity that does not come to the railway station, it can be thrashed out by experts. After all such quantity will be negligible in the aggregate, and to the benefit of the residents of the locality where the produce occurs

The President. Q—About your gross produce tax How are you going to deal with the produce when it is dealt with at the railway stations several times?

A—I am afraid I cannot answer this My point is that with least trouble, you get double the revenue The details can be worked out by an expert committee My proposal is one of principle only By the lowest computation you will get more revenue

Q—Would you not get into great difficulties Take rice, if it is shifted from the districts of cultivation to other districts?

A.—All that is a question of calculation If it pays the producer to do that, he will perhaps do it I am not prepared to give you all the details in such questions.

Q—On page 7 of your lecture, you have given some figures about the quantity of seed required per acre Might I know the origin of these figures?

A—From Government statistics

Q—But I see it is very much higher than some other calculations Take wheat, you say 24 seers, Dr Balkrishna says 20 seers?

A.—24 seers is quite correct to allow for some bad grains which will not germinate

Q—I have just worked it out, it comes to 2 per cent, Professor Shah takes it to be 2.7 per cent Can you say the origin for these figures?

A.—I am unable to tell you now, Sir, but when you come to Lahore I may be able to give you the figures.

Q—Then with regard to your proposal for redeeming the land revenue, can you tell us the advantages of the scheme?

A.—It is a very important one, Sir. Some advantages I have given in my book and some I have not given. One great advantage from the Government side will be that you will draw the masses to your side. You will not be subjected to the Swaraj lecturers saying that once you get Swaraj you will get your lands free of tax. The second advantage is that there is the lower class of people who are tenants now, who hoard their money and they will not take out that money except to buy up this pernicious land revenue I would start from the bottom. Do not give the benefit to the big landlords. I say that there are poor people who are subject to more sufferings than the rich people. So I say start from the bottom. For instance, a man paying one rupee a year, according to my recommendation, has to pay only Rs. 30 to redeem his revenue.

Sir Percy Thompson *Q*—Please refer to the table you have given in page 52 of your book In order to be free from land revenue for ever, I am going to suggest an alternative, suppose he invests this Rs 9,000 at 4 per cent?

A—But does he invest it?

Q—He can do that

A—He can, but does he?

Q—Would you put this Rs 9,000 ...?

A.—I personally may not, but that is not the question That is why I said, start from the bottom After all it is a privilege which cannot be claimed by anyone, it is an option with the Government. I say, first of all start from the bottom, give the privilege to men paying Rs 10 a year, or Rs 20 a year, and earmark that money for new canals and improvement of canals which will pay you 15 or 20 or perhaps even 50 per cent.

Q—Would you pay Rs. 9,000 in redeeming land revenue?

A—I say, only try it Try in one district I guarantee you can get crores of rupees.

Dr. Paranjpye *Q*—Would you attach any condition that the land should be kept under cultivation? He has paid his money and after redemption he might think that the land is not sufficient and may not cultivate it at all?

A—That is a wrong hypothesis If he cultivates under this oppressive land revenue system, why should he not do that under new conditions.

Sir Percy Thompson *Q*—You know there was a similar scheme prevalent in England during the Napoleonic wars when the land tax was four shillings in the pound and people were allowed to redeem under favourable conditions. But this redemption scheme did not succeed?

A.—The circumstances are not analogous here. I have asked many people in the Punjab and they are quite willing to readily take up the scheme.

Q—Would you pay?

A—Certainly I would. The other day I was induced by Sir Louis Dane, Lieutenant Governor, Punjab, to take on the contract system some land in Gangapur, comprising an area of 2,500 acres, and he asked me to go on improving it as hard as possible He gave me a 20 years period I agreed but when it came into the hands of the Financial Commissioner, he reduced the period to five years. May I say what they have done; after elaborate calculation they had fixed the revenue as Rs 9,000 and water rate at 5,000 rupees From Rs. 9,000 it has been raised to Rs 22,500 in five years. I did my best to improve the land and this is the result When this is the condition, I do not see there should be any trouble in accepting my recommendation

Q—You ask the Government to fix first of all the period of settlement at thirty years, and make a uniform rule that after every thirty years there will be a 25 per cent increase in the land revenue? But if a man were to put this in a Bank at 4 per cent, at the end of thirty years, perhaps he may get more than the increased land revenue assessment

A—No, Sir. My figures are not quite understood. I did not mean that the man would pay 25 per cent more at the end of 25 years, all I said was that the investment will admit of 25 per cent increase every 25 years Please examine my figures again. There is at present, no incentive for me to bring my knowledge and science to bear on the production. Always the sword of Damocles will be hanging on me At present the land revenue system is not at all popular.

Dr Hyder. Q—With regard to your scheme, are there any assumptions on which this table is based?

A.—None whatever

Q—You take the rate at 4 per cent?

A.—Yes

Q—And you are looking over a period of 90 years? Is it not a vital assumption you make that the rate would be constant for 90 years?

A—For the next 25 years, at any rate, I think the rate will never go down and by that time you can afford to invest at 3 per cent. I only put it as a hypothetical figure in order to show that I am treading on safe ground. But you can earmark the amount for the improvement of canals and I can guarantee a return of 15 per cent.

Q—Suppose the Government earmark the money. You know that you cannot increase indefinitely the area under cultivation. There is a certain limit to that.

A—In the Punjab, at any rate, I can assure you, the whole of the land revenue can be spent in that way.

Dr Paranjpye Q—You think that in the Punjab you can invest the whole of the land revenue on the purchase and improvement of the land?

A.—Yes, you can easily do it The Indus Canal itself is going to cost something like 20 crores of rupees.

Q—How many such schemes can you have?

A.—Several such schemes Nature's bounties are so great in the Punjab that you can spend any amount of money there

Q—If there was so much scope there, why has not the Government done anything so far?

A—Perhaps Government has not got so much money

Q—Till recently they could borrow at 4 per cent.

A—No, they could not.

Dr Hyder Q—You admit that this assumption of 4 per cent. is very important?

A.—Yes

Q—Secondly, you think that if all the land revenue were redeemed all this sum can be reinvested?

A—Yes.

Q—Will not the problems of occupancy rights, tenancy, etc., arise again?

A—All these laws are only vacuum brakes to progress.

Dr. Paranjpye Q—What would you do with the permanent settlement in Bengal? You are again putting certain problems which may be very difficult to tackle

A—Personally speaking, I am against permanent settlement. There is no secret about it

Q—But similar problems would again arise after 100 years.

A—No By that time, you will bring such a prosperity to the people that there will be many other industries

The Maharajadhiraja Bahadur of Burdwan. Q—Suppose your policy of redemption were adopted I understand that you will begin from the bottom. That is, you would first redeem people who have, say, one acre?

A.—No. I will begin first with people paying Rs. 10, then Rs 20, then Rs. 50 and so on

Q—What is going to happen to that land afterwards?

A—Government gets, instead of land revenue, a lump sum. Government will have no more control over that land, though the claims as to inheritance, participation in land, etc., will remain the same.

Q—That is where I am not quite clear Suppose I happen to be the Government and you possess 100 acres of land You redeem it. I divest myself of the proprietary right. I am no longer the proprietor of that land, whereas

you become proprietor. What is the guarantee that you and your family will be the proprietor of the land always? What is the guarantee of its not being sub-divided and its not passing into the hands of those who are non agriculturists?

A—The same guarantee as there is with respect to any other property. I do not know what difference there is between landed property and any other property. Suppose a man owns a house, he is the owner of that and he has every right over it.

Q—I am asking what will be the result if the Government sells its proprietary right

A—I suppose you do not mean to say as one Government officer once said. He said "in that case, if we go to the village nobody will salaam us" I think that sort of control might go. Otherwise the control is always there.

Q—What I say is this Suppose you and I make a transaction. It is a commercial transaction I sell you the proprietary right But there may be many difficulties in what you call redemption in cases where the sub infeudation is great. There may be three or four middlemen between the Government and tenant In simple cases your scheme may apply as a general proposition. It may apply very well in the Punjab. But in other cases how will you meet the difficulties?

A—There may be some difficulties in the permanently-settled districts, say, in Bengal and I think those people also will be wise in adopting this scheme and the great stigma which lies on their head will be thereby removed for ever, and Government revenue will steadily increase by 25 per cent. every 25 years.

Dr Paranjpye *Q*.—Would you have also the laws of alienation, tenancy, etc., in operation afterwards?

A—I am not prepared to answer that now.

Q—Would you have also income-tax imposed on profits of agriculture?

A—I am not prepared to answer that.

Dr Hyder *Q*—In answer to question No. 17 you say that the production can be increased if some of these restrictions are removed?

A—Yes. For instance, my tenant can buy land, whereas I cannot. I belong to the non-agriculturist class.

Q—You can buy the land because you possess capital But the other man does not possess capital. So the vital thing is the want of capital?

A—Yes, exactly But how can you provide capital? You are, by the Land Alienation Act, turning agricultural people into bankers now.

Q—To the extent to which they have become bankers, they utilise the capital in the purchase and improvement of land?

A—No, not on the improvement of land. They only want to increase the area.

Q—Looking at the thing for a period of years, what do you think?

A—All I can say is that the potentialities of land are now wasted absolutely.

The President *Q*—With regard to water rates. In page 33 of your pamphlet on the agricultural problems, you refer to the introduction of the measured system

A.—Yes. It has been introduced in the Punjab. But it has not become popular, the reason being that they had to face the difficulty of dividing the water amongst the tenants. That is the trouble and the question is now being discussed on a co-operative basis The Registrar of Co-operative Societies is asked to devise some means of distributing water equitably amongst the small holders In some parts the Chief Engineer has already offered to sell the water at Rs 3 per cusec and some people are taking it. But the trouble again arises in this way For instance, I asked for 25 per cent more and they would not give it

Q—Is there any difficulty in measurement?

A—No, there is no difficulty The meters have been devised now to measure up to one cusec The reason why it has not been extensively used is this There is difficulty in the division of water in one village consisting of several proprietors. Suppose in one village a man is not entitled to a cusec a day. That is, they

give a cusec for 300 acres and if a man has got only 50 acres he is only entitled to a smaller proportion. But you cannot sub-divide it.

Dr. Hyder. Q.—Some people tried to have a proper formula and they found that the system was not paying Is it not so? They wasted a lot of water?

A —I do not want to criticise other people.

The President Q —Do I understand that under the system it is not possible for an agriculturist to say just how much water he is going to take and pay for that?

A —No I am entitled to 2 cusecs in my village and I said that if they would give me 2½ cusecs, I would take it But they would not.

Q —They give a certain quantity of water to a certain area of land and the cultivator of that particular area cannot say, 'I want more water'?

A —No They will not give it, because it affects other people.

Q —So, it is not quite like the Italian system?

A —No. Here it is limited by the desire to economise. In fact, that desire militates against production They base their calculations of the canal on the lowest supply of the river and a lot of water is wasted Look at what happened this year There were floods I have given in my book the methods of stopping these floods That is, raise the bund by, say, one foot. Now a lot of water is being wasted If you only see that no land is left unploughed and that it is ploughed once at least, then all the benefits of nature will go into the sub soil There being no forests to absorb the water, floods occur. The water should be collected in the hills by bunds and other systems.

When you come to Lahore, I will show you the new system of pumping water Many people think that they can get water from under-ground That may or may not happen The sure source of water is rainfall We have found by experience and by scientific calculations that we want 15 inches of rainfall for evaporation and the sustenance of plant life and rest of the rain water goes into the sub soil and the reason why the canal irrigated area gets water-logged is that the sub soil water is not used I will show you the demonstration when you come to Lahore if due notice is given to me I also invite the Committee to come to my village, Gangapur, where I can show some of the improvements I have introduced. I draw the attention of the Committee to one or two important things For instance, there is a great deal of talk about rural sanitation

Q —At page 48 of your pamphlet, you suggest a formula

A —Yes I am cursed by everyone for giving that. I am sorry for having given it All the revenue officers quote my book Even with one anna in the rupee, I think Government can get much

Q —You think Government is entitled to take a commercial profit on the water?

A —Yes.

Dr Hyder Q —In answer to question Nos 15 and 16 you say, "in the Punjab where new lands are being brought under irrigation, the assessment of land revenue is made on a fallacious principle" You think that the Government charges the same thing twice over?

A.—You are aware that these colonies produced nothing 40 years ago. So that this extra produce now is entirely due to the water. Look at the way I am treated In the case I have given the land revenue has gone up from Rs 9,000 to Rs 22,500 while water rate will be about Rs. 10,000. If you combine the two charges, I shall be too happy. Now you have it in two ways. The first is the land revenue under which you get a lion's share of the produce and the other is the value of water

Q.—But all this extra produce is due to water?

A.—Yes, it is entirely due to water.

Q —Therefore, the Government being in the position of a capitalist can exact all that extra produce and you can have no cause for complaint.

A.—Then, where is land revenue? People are paying enormously as water rate *plus* land revenue.

Q.—In the discussions in the Punjab Legislative Council the zamindar party said that the tax-payers who formed the large majority in the Punjab were already paying the interest on this irrigation debt and that therefore there is no reason for the Government to charge them. Do you think that is sound?

A.—I cannot say it is sound. Some of them already getting 100 per cent.

The President *Q*—You gave us an interesting table of water rates in the different provinces.

A.—Yes In Bombay they charge Rs 50 an acre for sugarcane crop. We pay from Rs 15 to Rs. 20. In the United Provinces, I think if there was water available for 3 months, the area under sugarcane will double itself. The whole trouble is in March, April and May. If there is water in these three months, God will take care of it afterwards and the sugarcane crop will increase.

Q—With regard to salt, you have made certain proposals. Would you mind explaining them briefly?

A—I give you the whole file of correspondence that passed between Sir Basil Blackett and myself. I see no reason why we should not sell salt at every railway station at a fixed rate. I calculated roughly and I found that we could easily sell it at Rs. 5 while it now sells in some of the very poor districts in the United Provinces at Rs 7 or Rs 8 On enquiry I learnt that the profits of middlemen were very great The Government duty *plus* railway freight up to Simla came to Rs 2-4 0 and it is selling there at Rs. 5 The middleman takes Rs 2-12-0 I will leave the whole file with the Committee and the Committee, if it likes, may further examine me in Lahore

Q—The difficulty is the cost of the staff involved

A—Yes But all that can be calculated very nicely. Suppose a poor man lives somewhere about 600 miles from the salt mines Why should he not get it at the same rate as any other man? I think it must be sold at a uniform rate at every railway station. Then there will be no middleman's profits.

Q.—We tried a certain scheme in Madras in consultation with the railways. But we could not sell it in the railway stations.

A—The petty shop-keepers will buy it

Q—But even then he gets profits

A.—But not so much

Q—The difficulty is that people won't go there and take the salt.

A—I won't venture to give any opinion on that point

Q—To turn to denaturation You realise that there is very strict control in *France*?

A—These are all details which ought to be worked out There is also some difficulty in finding salt for cattle Perhaps if it is mixed with some other article, it will be convenient. Some chemists have offered to try the experiment. That question also may be examined

Q—Would you like to make further proposals about these points at Lahore?

A.—Yes.

Q—With regard to excise, you say that total prohibition is impossible. But already the Punjab Government have reduced the shops and they have raised the taxation on spirit to Rs 18 a proof gallon

A.—Nobody is allowed to keep more than one bottle of Indian liquor but they may keep any number of bottles of English liquor

Q—But is it not possible to prohibit that one bottle also?

A—Then they take to English liquor and English liquor is sold now at the same price as the Indian liquor. I know in the Punjab there was a large sale of Cooper's Brandy, the greater part of which is methylated spirit. I do not attach much value to the question of consumption In Lahore in a particular place I know that in the famine year the shop got an immense sale. That shows what the value of liquor is sometimes.

Q—What is your experience about illicit distillation?

A.—You cannot stop it. Whoever goes to find it out will himself get into that practice.

Q.—Twenty years age it was mentioned in the Punjab Administration Report that more than half of the liquor consumed was illicit.

A.—I cannot say anything about that. But I know that illicit distillation does occur. I cannot give the proportion.

Q.—You are strongly opposed to anything of the nature of direct taxation?

A.—Yes.

Q.—What is your reason?

A.—The simple reason that people cannot bear it and there is such a hue and cry over it. Nobody can feel the burden of indirect taxation. There is the question of taxation at the railway stations. I think that will never discourage exports. The rates have nothing to do with the question of consumption. They depend on the demand for the article.

Q.—You think that people will bear such taxation?

A.—Yes Last year we sold cotton at about Rs 98. Now it is Rs 45 or so.

Q.—You think it is impossible to introduce direct taxation for local purposes?

A.—For local purposes it may be all right, because there is no other way. Let the octroi be charged on the railway freight, that is added to the railway freight. The house tax will again give you some trouble The poor man who owns a small house will find it very difficult to pay house tax There are large numbers of people who own small houses just enough for their shelter and they make their living sometimes by begging in the streets

Q.—You think they will pay an octroi duty rather than a tax on the house

A.—Yes, I think so But I may also say that I am not very competent to give you an answer to that.

Dr. Hyder *Q*.—What about tax exempt securities?

A.—I have already given you my suggestions. You will be able to issue Government paper in a very convenient form which will induce people to invest their money in Government paper.

Q.—That is one advantage of tax-exempt securities Are there any disadvantages?

A.—I do not think there are any.

Q.—Thus under your scheme you will have in course of time a class which pays no tax. That means you increase the burden of the people who do not invest in these securities Therefore, if your suggestion is adopted, don't you think that there will be trouble in course of time?

A.—I am not quite prepared to answer that But I may say this I have already given you the formula and suppose Government undertakes to pay double the amount after a certain period, then people will be willing to invest their money for the benefit of their children, i e, for their education, marriages, etc.

Note by Sir Ganga Ram on the Question of Salt.

I find from the Administration Report of the Salt Revenue Department, for 1922 23, that the gross revenue of the Deptt was Rs 2,06,33,501, this in maunds would be 20,633,501, divided by 1 25 equal to in round figures 17,000,000 maunds, divide this by 33 crores of human population, the consumption per head is ·05 of a maund, and if the cost of salt including Government duty, freight and middlemen's profit is Rs 4 a maund, the cost per head would be annas 3 20 per head per annum In my opinion this tax can stand easily doubling, i.e., the duty could be increased to Rs 2-8-0 or at least Rs 2, and in that case the cost per head will be a little less than 4 annas per head

I had been looking for a long time for some recipe by which the salt could be made into a shape that will not be fit for human consumption and yet it would be acceptable to cattle and horses Happily I find the formula given in the Annexure "G" of the Questionnaire, page 31 Such salt required for cattle food is technically called "Denatured Salt", and in that Annexure there are four formulas Of these four, the formula No. 1 seems hopeful and is recommended by the Veterinary Department. It will be five parts salt and one part oil-cake, all ground together.

I consulted Col. Walker, Principal of the Veterinary College, and asked him two questions :—

"How much salt per diem is absolutely necessary for keeping in good health for (*a*) horses, (*b*) cattle?

To this Col Walker has replied :—

"*It is advisable to give horses and cattle salt to keep them in good health.* Horses, one ounce each daily and cattle two ounces each (full grown animals)".

The second question I put him was .—

"Does the deficiency of salt affect the milching qualities of cows and sheep. If so, to what extent could it be increased?

To this he gave the following reply .—

"In dietetic doses as above, the milk should be increased to some extent. Toxic doses would be harmful."

Now I find from the Statistics issued by the Government of India (the latest I have) for 1912-13, that in British States (see table, page 6) the number of cattle are as follows :—

Bullocks and bulls	46,982,900
Cows	35,711,600
Buffaloes—male	5,235,400
Buffaloes—female	12,472,100
Total ...	100,402,000

Sheep and goats omitted Roughly speaking say ten crores Allowance should be made on calves and young stock, therefore the item of cows and female buffaloes may be divided by 2, in which case the figures will come to roughly 8 crores The required quantity of salt at the rate of two ounces per day equals to $\frac{2 \times 365}{16 \times 80} = \frac{73}{128}$, or say half a maund per head, by calculating the quantity 8 crores of cattle into half a maund means 4 crores maunds per annum. Then allowing for waste, etc., the cautious figure will be, say 3 crores.

The horses and ponies in the British States are :—

Horses and ponies	1,554,700
Mules	81,000
Donkeys	1,363,800
Camels	446,100
Total ...	3,445,600

or say 34 lacs.

As the dose for horse is half the cattle, therefore, at ¼ of a maund per head, for 25 lakhs, it will be 6¼ lakhs maunds

In Indian States (see Vol II, of Statistics of 1912 13, page 87) the figures are as follows :—

Bullocks	3,924,387
Cows	4,287,839
Buffaloes—male	263,901
Buffaloes—female	1,465,877
Total ...	9,900,000 (in round figures).

Figures for young stock of cows and buffaloes are given separate in the Statistics, as 3,852,236, let this figure be halved, say 20 lakhs Thus total number of cattle be put down at one crore 20 lakhs maunds, hence salt required will be 60 lakhs maunds.

The figures for horses, ponies and camels in the Indian States are as follows :—

Horses and ponies	169,336
Mules and donkeys	170,053
Camels	52,798
Total	392,187

Call it 4 lakhs At ¼ maund per head per annum is equal to one lakh maunds.

Recapitulating, the requirement of salt would be :—

	British States.	Indian States	TOTAL.
Cattle	3 crores	60 lakhs	3 60 crores
Horses	·6 lakhs	·1 lakhs	7 lakhs
		Total	4 3 crores

Say 4 crores In other words, the least requirement of cattle and horses is 4 crores maunds of salt

If duty of 6 annas per maund was levied or a quarter the duty for human consumption, the additional revenue will be one and half crore rupees

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Sir Ganga Ram's figures are for Northern India only.

Appendix II—The actual issue of salt for Northern India in 1922-23 was 13,603,230 maunds duty paid and 191,422 duty free

Table 72 of Statistical Abstract—For the whole of India in 1921-22 the balance of issues and imports over exports was 48,128,000 maunds

The population being 318,942,480 the consumption per head is 15 maund. At Rs. 4 a maund this works out to 9 6 annas a head per annum

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Sir Ganga Ram was again examined on the 26th January 1925 at Lahore.

The President Q—You have made certain very interesting calculations.

A—I made a mistake so far as the first part of my notes is concerned. I thought that the Administration Report was for the whole of India So we need not take the first part into consideration at all

Q—You base your proposals on one of the French arrangements You adopt a formula for denaturing salt, but do you realise that in France first of all a certificate has to be got from the Municipal authorities?

A.—That is only with regard to manure

Q—No, for any denatured salt it is required

A—I think that is only for manure. I have suggested that some factories might be opened and to those factories salt dust and impure salt may be issued at lower rates. The salt department will be able to say that a certain quantity of salt would be issued for the purpose.

Q—And you would leave it free when once it is out of the factory?

A.—Yes It will not be useful for human consumption. The factory will grind the two articles together, i e, 5 parts of salt and one part of the cake and issue the mixture in the form of powder.

Q.—Then all that the person has to do for making it fit for human consumption is to dissolve it in water.

A.—But he cannot get any salt out of it.

Q.—You know how salt is made out of salt earth.

A.—But in the salt earth you simply take away the salt from the earth.

Q.—If you dissolve this mixture in water you can separate the salt.

A.—I think you cannot get the salt if you dissolve it in water. But anyhow I will myself try the experiment and let you know the result in a month. But I don't think it would be worth the trouble. The value of the cake is lost.

Q.—The cake too will be all right.

A.—But it won't be of any use. Unless perhaps it is done on a large scale, nobody will take the trouble and the dose is really very small.

Q.—On the coast of Madras at one time the people took the trouble of boiling the sea water and getting the salt, and we used to prosecute a number of people every month.

Dr Paranjpye. *Q.*—That is also my experience. People take the earth after it is dried in the fields, dissolve it in water, strain it and use that water for cooking purposes.

A.—They are doing it in France and I do not see any reason why we should not do it. I was also speaking with Col Walker and he also agreed with me that this was the only proper formula. If people know that it contains some foreign material—a chemical substance—they will not use it. They will say that it contains a poison. So what I suggest is a simple formula and people will be willing to buy the powder.

The President. *Q.*—In France you must first of all get a certificate from the Municipality. Then you have to get the salt from a depôt and have it mixed under supervision and separately stocked so that an officer may come at any time and see that you are feeding your cows with it and not using it for any other purpose.

A.—We can simply give a license to a factory to prepare this mixture. The factory will run machinery and prepare it. It will then put it in packets and sell it.

Q.—I think it should be in the form of crystals.

A.—It is not necessary. You can give the powder to the cattle very conveniently every day. In the Punjab we use oil cake with fodder and call it *Guthara*. We mix it with any kind of fodder and it will be used.

Q.—I am afraid that instead of doubling the revenue, you will halve it.

A.—Why?

Q.—Because nobody would pay Rs. 1-4-0 for this when they can get the salt for annas 6 ordinarily.

A.—I don't think so.

Q.—How is it they eat less salt in the Punjab than elsewhere?

A.—I do not know that.

Q.—The ration of salt for a prisoner in the Punjab jail is 2/3rd of that in Bombay.

A.—I did not know that.

Q.—Perhaps that is due to the greater consumption of wheat here.

A.—That may be.

Q.—We will be interested to hear the result of your experiments.

A.—Yes. Col Walker also told me that my formula would increase the quantity of milk by at least 25 per cent. I had been looking a long time for such a formula and I have now come upon it. I have high hopes of its success. I will grind this mixture in the proportion I have mentioned and I will also try the experiment of dissolving it in water. I will also consult a chemist.

22nd January 1925.

Delhi.

PRESENT:

Sir CHARLES TODHUNTER, K C S I, I.C S, President.

Sir BIJAY CHAND MAHTAB, G C I E, K C.S I, I O M, Maharajadhiraja Bahadur of Burdwan

Sir PERCY THOMPSON, K B.E, C B.

Dr. R P. PARANJPYE

Dr. L K HYDER, M L A

Professor MULK RAJ KOHLI, M.A., Professor of Economics, Mohindra College, Patiala, was examined.

Written memorandum of Prof. Mulk Raj Kohli.

1. Most of the existing statistics are untrustworthy as they are based on the estimates of singularly ill-qualified persons They are also inadequate for the purpose of estimating the wealth and income of the country as they do not take account of the value created by large numbers of people engaged in transport and trade. How, for example, would the value of the labour and skill of the carpenter, goldsmith, tailor, mason and blacksmith be adjudged? How would the contribution to production of the middleman be estimated? And what about the numerous class of people who perform services alone, whether those services be of an intellectual or manual type? How would you evaluate home ginning and home-spinning which are quite common, at least in the Punjab?

2 Of the estimates given in Annexure B, I consider Nos 2, 4, 6 and 8 as the most trustworthy If allowance is made for the rise of prices that has taken place since 1881 it would be apparent that the four estimates of income referred to point to very nearly the same condition of things I should say positively that Nos 3 and 5 are hopeless underestimates.

3 Yes, I agree; there are no corresponding figures to base the estimate on

4. No

5 The task would be hopeless in an agricultural country like India I do not consider conditions for such a census ripe The game is not at all worth the candle.

6 I would advocate legislation in No (1). Nos (2) and (3) should be investigated by honorary non-official agency Regarding No (3) I should like to point out that the movement of rents may be in opposite directions in two towns within the same province. Rents may be rising quickly in Lahore, Lyallpur and Rawalpindi, they may be falling in Multan, Hazro and Rahon and they may be stationary in Jagraon, Hoshiarpur and Karnal All India legislation would be useless; local Governments may form mixed boards of enquiry as in the Punjab I would however like the Punjab Board of rural and urban enquiry to take in more non-officials.

7 They are helpful in so far as they aid the adjustment of the burden of taxation from time to time.

8 Exact measurement of incidence is impossible; only a rough estimate is possible and that is all that a legislator needs. Such a rough estimate is certainly possible on the basis of the intensive enquiries referred to In taxation

the aim of the legislator should be to avoid palpable inequity; he cannot even, if he wills, hold the scales absolutely even No Government has done it, no Government can do it. Pope said the last word on it in his oft-quoted epigrammatic couplet.

I should however suggest two points in this connection. In the first place the systems of taxation prevailing in the Indian States should be studied and compared with the British Indian system. This comparative study has not only contemporary but historical value too for a moment's consideration would show that the existing systems of taxation in Indian States *are largely the survivals of pre-British systems* The systems prevalent in some of the hill States of the Punjab, and some of the out-of-the way States of Rajputana and South India would take us back even to the later Hindu period

In the second place I should like to point out that the present system of taxation in British India like the systems in Indian States, though of course to a less extent, is open to the serious charge that it has imposed comparatively little burden on the people earning say between Rs 600—Rs. 10,000 per annum. This is a pretty big class and I myself belong to it. If I were a political autocrat I would transfer a good deal of the burden of the lower classes on to this class I would rather incur the wrath of the politically-minded class which mainly falls in this category than perpetrate an age-long injustice.

9 I should roughly divide them as follows —

(*a*) Landless labourers; (*b*) Petty landowners like the small peasant proprietors of the Punjab; (*c*) Low-type artisans like the potter, the cobbler, the weaver, the poorer types of blacksmiths and carpenters; (*d*) The higher type artisans like masons, better types of carpenters and blacksmiths, goldsmiths, etc., the lower classes of clerks and ordinary teachers also fall in this category; (*e*) The intellectual middle class which may be subdivided into the lower and the higher; (*f*) Landed magnates and the Napoleons of industry and finance.

13 Broadly speaking the effort should be to secure *a commercial return* The only exception I would make is the Post Office which should be run on the principle of the 'bare return' for its indirect educative value is immense

14 None except in the case of profits on coinage

15 I should prefer the second one of charging a fair commercial profit

The first is unjust as between the owners of canal-irrigated and well-irrigated and non irrigated lands, the third is complicated, the fourth is impracticable and the fifth involves an element of uncertainty both to the State and the landowner and a good deal of 'intermediate oppression.'

On the whole it is certainly not more than adequate.

16 The State should appropriate *at least half the increase in value* This I suggest as a compromise for, left to myself, I would appropriate the whole because the owner contributes nothing to the increase As for the method of sharing the increase I would leave the choice as between 'a lump sum' and 'a betterment tax' to the owner.

19 *In some* cases the levies should be treated as 'commercial charges' but in others as in the cases of educational and medical cesses they should be treated as ordinary taxes.

20 I would treat the local bodies in the same way as I have treated the central body under 13 and 14.

21 No, none should be excluded in estimating the burden upon the tax-payer but much sympathy should not be shown to classes that contribute largely to excise and the luxuries tariff.

23 Generally speaking I agree but it should be remembered that expenditure on smoking and drink very often *reacts* unfavourably on expenditure on the necessities and comforts of life.

24. A tax on entertainments I would liken to a tax on smoking or on moderate drinking but a tax on railway tickets is of an entirely different type. It would really be a combined tax on business, religion, litigation, social customs, family connections, mobility of labour and a host of other things. As such I should very strongly condemn it.

25 No.

26 I should make the following additions to Adam Smith's canons of taxation :—

(a) The tax system should not be such as to seriously discourage the growth of capital in the country.

(b) It should be elastic

(c) "No tax should be levied, the character and extent of which offer, as human nature is generally constituted, a greater inducement to the tax-payer to evade than to pay."

(d) Repression The following quotation from Prof Carver will make its meaning clear "In case there are undesirable businesses which the Government does not care to prohibit, or undesirable habits which the Government does not care to suppress, *the repressive power of taxation may be used* Men may then be made to pay for their folly to avoid taxation In extreme cases complete suppression is doubtless better than mild repression; *in milder cases, such as luxurious consumption, ostentatious dressing, etc*, the mildly repressive effect of a tax is desirable."

(e) "It must present itself as a system and not as an aggregation of independent and unrelated acts".—Carver.

(f) "There must be harmony and balance between the central and local Governments, between the local Governments themselves, and between the several organizations of local Government" —Carver

(g) Its burden should be made to fall, as much as possible, on the rental elements of the different factors of production

(h) The question of equity in taxation is inseparable from the question of governmental expenditure I should, for example, cease to look upon the land tax as burdensome if the rural population were to get in return for it more education and better medical facilities

27 and 28 Yes

29. Either I should prefer a direct tax but it is hardly practicable at present

30. No.

31. I am strongly opposed to the first three but I may retain the fourth for local bodies.

32 More objectionable excepting possibly octroi

33 Considering that India was not directly involved in the war and also that the rates given in Annexure E relate to the period affected by the war, I should be inclined to view the rates for higher incomes as rather excessive *I should lower the taxable minimum* and increase rates below £2,000 I would however introduce the system of abatements

34 No, it is not at all satisfactory I should take advantage of other schemes but frame my own with special reference to the peculiar conditions of this country

35 Yes, I would

36 In India it is rather difficult but I should try it

38 I am emphatically in favour of the removal of exemption

40 I consider the present limit as decidedly higher than subsistence level I should lower it to about Rs 600

41. The objection is undoubtedly true No (1) has been effective but not No. (2).

42. In view of the general illiteracy of the people I should not try it generally But I should be inclined to try it in the case of bigger landlords and traders

43 The English practice would not only reduce frauds but reduce petty official oppression too In spite of difficulties I should very strongly recommend its trial in India at least in selected areas

44 I appreciate the difficulties of Governments but I should put my foot sternly on such income tax free securities.

45. Yes, I approve of the device of collecting the tax by a stamp duty.

46. Not so far as Indian States are concerned in spite of the recent circular. The statement of the income-tax officer in the State should be accepted as final.

48. Yes, I agree.

49 I should try tobacco.

50 Such graduation is practicable to some extent. I would for example make a distinction between cloths of higher and lower counts I would also tax motor cars and cycles on the progressive principle.

51 Yes, I do accept it.

52 Ditto

53 For normal times I do consider it a little too high.

55. Yes.

56. I shouldn't make salt normally dear to the poor Bengalee.

59 Though I am theoretically in favour of the proposal, I am afraid it would in practice lead to favouritism in the Punjab On the whole I am averse to it.

60 I should consider it practicable so far as industries are concerned

61 No

62 I consider total prohibition for *at least a decade* as entirely out of the question But if prohibition is decided on I am in favour of Dr. Mathai's scheme.

63. While taking exception to such parts of the statements as "the large consumption of which is not merely a presumption of the possession of superfluous income" (3rd statement), I may say that on the whole I accept these statements.

64 It falls short of what I would approve.

66 Not much.

68 Yes

71 Yes In the United Provinces, for instance, where *bhang* is almost universally consumed I would like to get a big income by imposing a high rate. I would tax peoples' folly.

72 It is not unsatisfactory where licenses are sold

73. Yes. Moreover it gives rise to less corruption and favouritism.

76 It possesses no special advantage.

78 It should cover *a variety of articles* in order to make the burden of taxation more uniform But if the latter purpose can be achieved with fewer articles so much the better. But I doubt whether it is practicable.

80. Yes, on cotton goods of superior varieties and on woollen and silk goods generally Motor-cars and cycles, etc , also fall in the same category.

82 Cotton, especially in view of shortage in its production and increased world-demand for it.

83. I would have *ad valorem* duties wherever possible

87. I would prefer taxes on betting (racing), entertainments, motor-cycles and motor cars

89. I don't accept Bentham's position so far as civil justice is concerned, I should however look upon the cost principle as the limiting principle. *The charge should never exceed the cost of rendering the service*

90 No, I don't. In many cases transfer furnishes an excellent occasion for taxing ability To my mind it does not impede business.

95 I should prefer to see a more general extension of the tax.

96 The Indian land revenue undoubtedly comes out of what we economists call ' Economic or Pure Rent .' I can say this positively of the Punjab and the United Provinces and what is true of these provinces is most probably true of other provinces. I could prove to the hilt that even in the worst lands under the ryotwari system the land revenue comes out of Pure Rent I should characterise it as a *tax on rent* As such it is an ideal tax but unfortunately on account of the great pressure of population on the soil a large part of the tax comes from a class of hopelessly poor people. If there were alternative avocations open to the agricultural classes I would be the last man to advocate any diminution of this tax. It is an old tax and is one that *falls on value*

that Society as a whole creates and as such is singularly fitted for India and is thoroughly in accordance with modern economic thought The difficulty of the small owner can be solved by bringing the taxable minimum in the case of income tax to Rs. 600 and treating agricultural incomes like other incomes with this difference that they should be taxed at a higher than earned incomes The unearned increase in the value of land that would take place as a result of the foregoing proposal should be appropriated by the State to the extent of 50 per cent. as suggested in reply to question No 16, and this should be constituted into a special fund earmarked for agricultural development and improvement of rural education and sanitation

97. It is affected *not largely but considerably* in the case of poorer classes of cultivators. The chief causes that affect it are (i) usurious rates of interest, (ii) litigation, (iii) ruinous expenditure on marriage, funerals, etc, (iv) drink and last but not least excessive pressure of population on land

98 The land revenue assessment *does not* ignore 'the ability to pay' of the subject *except in the case* of small cultivators The enjoyers of unearned increment are obviously the people best fitted to pay

That the assessment can be enhanced after a period of 20 or 30 years does not show that the system lacks certainty. If certainty is interpreted in this way how are income-tax and customs more certain than land revenue? In fact *the land revenue is more certain than nearly any other tax*

There is no doubt some 'official tyranny and extortion' The inconvenience of time if there is any can be easily removed

The cost of collection is undoubtedly high and this along with the extortion by revenue officials constitutes the weakest spot in land-revenue administration.

100 I have already answered many of the questions under this *Rs 2,000 is a monstrously high minimum* (2nd part—Yes it is, though not quite easy) The difficulty about fractionization wouldn't arise as land revenue under my scheme would entirely disappear I would keep the minimum in all classes of incomes alike but would take agricultural incomes at a higher rate than non-agricultural ones

101 Legislation, co operation, and industrialization of the country are the only effective checks to fragmentation of holdings

102 I accept it in principle If *lands were leased by public auction* I would give my whole-hearted support to the proposal There are political dangers from it.

104. The incidence of land revenue should be arrived at (*a*) by dividing land revenue by cultivated area, and (*b*) by comparing the percentage of assessment to net produce as indicated by the rental taken by the landlord

106 Yes

107 The levy of no specified tax should be imperative

108 I should replace the octroi by the terminal tax wherever possible If the choice is between one of these and the house tax, I would prefer the latter as it would arouse public interest in civic matter and would exercise a wholesome influence on the extravagance of local bodies

109 Not only do I agree with this characterization of the octroi by A Smith but I would add that it is a fertile source of demoralization among the people and of corruption among octroi officials The petty officials dare not question the well-dressed and the spectacled 'Babu or Sahib' but he pounces mercilessly on the poor, ignorant shabbily dressed peasant or artisan The 'Chungi wala' is as venal as the policeman or the patwari and is an insulting bully to boot. *The octroi duty is very extensively evaded by the educated and the wealthy* All try to evade it but the poor seldom succeed Not five in a hundred of the Lahore students pay the duty on ghee they bring from their villages, and nearly all of them conceal their new clothes in their beddings. *If ever there* was a case for the obliteration of a tax it is for the octroi I cannot help characterising it as *the rotten remnant of a rotten system of mediaeval bourgeois taxation*

Yes, the same criticism applies to the terminal tax regarding incidence but not regarding either cost of collection or venality

110. The unwillingness of the bulk of the people to shoulder direct taxation like house tax. *If the tax is to be at all retained* it should be retained in out-of-the-way municipalities and notified areas where there are no railway stations.

112 In the long run the tax would in all cases be shifted but in the short period it may not be possible to shift it If a moderate amount of house-tax is imposed in a decaying or stationary town it would not be possible to shift it to the occupier.

116 A tax on professions like all direct taxes is resented by the people. The recent experience of the Lahore Municipality is an instance in point *Its economic defect is that it is regressive in character.* But if it is moderate in amount no objection can be taken to it.

119 A tax on hotels may be tried.

120 I would accept (i) subject to exemption up to Rs 600 No government dare attempt a universal income-tax, much less the Indian Government.

Out of (ii) I would approve income-tax on agricultural incomes, tobacco monopoly, tax on motor cars and other vehicles and a tax on horses, elephants, etc. and wholetime domestic servants *The tax on registration of marriages* would be very strongly resented by the people No Indian Government should think of this tax for the next 25 years For a similar reason I would reject (iii) though I am personally strongly in favour of it.

Out of (v) I would select shellac.

With all the respect I have for Sir Ganga Ram I can characterise his proposal under (vi) only as the emanation of a heated brain.

121. Yes, I do most emphatically agree It has been a constant surprise to me why the article has escaped taxation so far.

136 Yes I do not quite understand the distinction between (*a*) and (*b*). I would *recommend the system prevailing in our State.* Perhaps you know that Patiala is one of the two or three Indian States that have got a tobacco tax. The duty is administered by the Excise Department assisted partially by the Patwari Section of the Revenue Department The tax has been *administered without any increase of cost to the State* This is one of its chief recommendations

What is done is this The bigger towns are divided into sale sections For example, Patiala City is divided into 12 such sections The contract price of each section is then settled by *auction* Smaller towns have fewer sections and sometimes only one Auction is held for contracts of bigger villages with which surrounding villages are usually attached Some contracts are sold for groups of 10 or 12 villages Altogether for a State with a population of nearly 15 lakhs, there are upwards of *200 sale divisions or sections.*

Local production is controlled by the Excise Department issuing 'chits' to patwaris Each patwari enters in this 'chit' the areas grown by the cultivators, the amount of probable yield and the amount that the cultivator requires *for his family's annual consumption* If 'Batai' or 'Metayage' exists the annual consumption of the tenant and the landlord is noted down *Any cultivator may grow tobacco* but he must furnish the above information to the patwari. After the tobacco is ready the cultivator may sell it to *any contractor in the State* He is required by the Excise Department *to show that he has sold off to the contractors all excess over the amount allowed him for domestic consumption* Cheating is punishable under the *Opium Act*

The above relates to indigenous production Tobacco may be and is imported from outside the State as well. Any contractor may do so and there is no customs duty on the amount imported. To all firms of tobacco not excluding snuff the same rule applies

There was a time when villages were divided into two groups and for one type a contract was given for a fixed amount of Rs. 5 per annum and for the other for Rs. 10 For cities alone did the auction system exist. *This practice has however been given up* The present system is more paying.

Any body, excepting those allowed a free family allowance, found with tobacco exceeding *two seers* is punishable like the cultivator who keeps more than his family allowance.

The tobacco tax yields to the State nearly 2 lakhs of rupees According to the Census of 1921 the population of the State is 1,499,739 or nearly 15 lakhs Of this 35 per cent are Sikhs. This gives us *9·75 lakhs of smoking population* In British Punjab the smoking population is nearly 187 lakhs. There is no doubt that smoking is as common in the Punjab as in the Patiala State. If we therefore bodily import into the Punjab the system at work in Patiala we may reasonably expect an annual tobacco revenue of a little over 38 lakhs.

139 Yes, I agree.

140. I would frame my own schedule keeping the principles mentioned in Q 138 in view. My proposal would be something like this. I would exempt all inheritances up to Rs 10,000 I would vary the tax *with the size of the estate left* with one exception only If the inheritor is the son or daughter and if the estate when divided among them brings to each less than Rs 10,000 I would exempt the estate from tax For example, a man with three sons may leave an estate of Rs 25,000 This would mean less than Rs 10,000 for each I would in such a case impose no tax on the estate If however the inheritors are other than sons and daughters, I would subject the estate to taxation

142 Yes.

143 The difficulty exists to a greater extent in India than elsewhere although it does exist in other countries too

144 The evaluation should be effected by the Income-tax Department in collaboration with the local committee suggested under income-tax

145 Income-tax Department

146. Rs 10,000 subject to answer under Q 140

147 Yes

148 Yes, there is some danger

149 & 150 In view of my proposal for the abolition of the land revenue in its present form a readjustment is absolutely necessary.

152 Yes, I accept it.

153 If you give the benefit of it to Bengal, the Punjab would also claim the salt revenue.

155 I would treat tobacco as a provincial head

156 Yes, I do think that income-tax and succession duties should be centrally administered Equitable Division is difficult but I would suggest that the Central Government should give to Provincial Governments 1/3rd of these taxes realised from their respective provinces To compensate the loss to the Central Government occasioned by this I would require the Provincial Governments to pay to Government of India 1/3rd of the Excise Revenue realized within borders In making this proposal I have kept in view the opinion I have already expressed viz., that the abolition of the excise revenue is an impossibility for at least a decade or so.

160. Yes

163. Yes

164 I would strongly recommend that *Life Insurance be made a State monopoly.* The business is of a routine character and the Government has got the Post Office Savings Department which can easily take over the business The cost to the insured would be lower than at present Moreover it is the interest of the State that the people should insure themselves

167 Yes

168. I would utilize the staff for the tobacco tax but if land revenue is abolished I would suggest an alternative

171 There is as great need of freedom from public pressure as of freedom from *departmental pressure* The latter not infrequently leads to oppression of the public by subordinate officials of the taxing departments.

Professor Mulk Raj Kohli gave oral evidence as follows :—

The President. *Q*—You are a professor of economics at Mohindra College, Patiala; how long have you been there?

A.—I have been there a little over five years.

Q.—You have submitted a very full answer to our questionnaire. We now propose to take you by turns according to the subjects

A—Very well, Sir.

Dr Hyder. *Q*—In answer to question No 1, you say that most of the existing statistics are untrustworthy as they are based on the estimates of singularly ill-qualified persons, and in answer to question No. 4, you say you have no suggestions whatever to make. May I ask you now how is it that you say in answer to question No 2, you consider that of the estimates given in Annexure B, Nos 2, 4, 6 and 8 are the most trustworthy. My point is this In answer to question No. 1, you say that the existing statistics are untrustworthy because they are based on the estimates of singularly ill-qualified persons. Are you not aware that among the estimates you think trustworthy, is included that of Professor K T Shah and Mr K J Khambata? How can their estimate alone be trustworthy?

A.—It is only a question of relative trustworthiness I consider these as the least inaccurate, and not as the most accurate.

Q—They take the view that the national dividend consists of commodities only. I wonder if you will agree with that?

A—No I do not agree with them at all.

Q—Therefore their estimate No 8 is not trustworthy?

A—I only say that among the estimates that you have given, these are more trustworthy than others To my mind it appears that exact knowledge of these facts is not essential for the purpose of this enquiry Their estimates may be right or wrong, what we ought to know is the comparative distribution of wealth among the different classes of society. That is all that matters for us Even if it were possible, I do not consider it is worth while to spend much money in knowing the *per capita* income. I do not consider it necessary at least at this stage of the country's evolution. I agree these estimates are unscientific, and they give no clue to the distribution of income in society. All these four estimates lead to the same conclusion For example, Rs. 27 in 1881 would be very much the same as Rs 30 in 1901 and this latter would be the same as Rs 74 in 1921 22 I consider all these are under-estimates, because if we make allowance for non material services our estimate would come to very near Rs. 100.

Q—Have you made an estimate of your own?

A.—Not exactly an estimate of my own But I would consider fairly accurate the figure relating to 1921 22 and add to that the value of economic services rendered by other people which would bring it to very nearly 100. They are underestimates, no doubt, but among these I would prefer them

Q—What are your reasons for saying that the census of production would be hopeless in this country and that the conditions are not ripe for such a census?

A—It is like this England is a very highly industrialised country and the wealth there is mostly concentrated in big towns But in a country like India where there are from 6½ to 7 lakhs of villages, it would be almost an impossible task to frame an accurate estimate of the wealth of the people If you have an army of about ten thousand investigators working for about five or six years, then perhaps you might be able to get some result Even then it might be wrong by 30 per cent either way. I do not think it would be useful to undertake an investigation involving so much labour and money.

Q—You say the wealth is distributed over vast areas?

A.—Yes. The people are distributed mostly among 7 lakhs of villages and they are comparatively illiterate How many people are there for example who would be prepared to carry on this work I think the task would be extremely difficult I would rather propose another thing I would select in each province one or two districts and carry on more or less exhaustive enquiries into these districts I would select in all about 20 districts for the whole of India, from each province say about 2 districts, and carry on an exhaustive enquiry and arrive at some sort of rough estimate. But to attempt such a gigantic enquiry as is proposed in question No 5 is to my mind a hopeless task.

Q.—I do not understand exactly your answer to question No. 6. In No. (3) you say that the movement of rents may be in opposite directions in two towns within the same province?

A.—What I mean is that in certain towns the rents are falling whereas in other towns they are rising

Q—Just like in prices, if you have an index number of prices and if it is scientifically constructed it can give you the trend of events?

A.—The case would not be similar If your investigations are spread over a large number of places then there would be some similarity, most prices rise and fall together, but here in the case of rents there are actual falls in certain villages. For example in Patiala which is not an expanding town the rents are not rising at all. If the rents remain stationary it means they are not keeping pace with the trend of events Only in industrial towns and towns which have assumed commercial importance, you will find that rents are generally rising

Q—Then you are of opinion that the class of people earning an income between Rs. 600 and Rs 10,000, pays no tax or comparatively very little?

A.—Yes, relatively people whose income is less than Rs 600, I mean a large class of poorer peasants, are contributing much more than the classes I have referred to I can tell you about myself I made an exhaustive enquiry into my personal income and made all sorts of calculations I came to the conclusion that I was paying Rs 120 in all forms of taxes—direct and indirect—to the State. For a man who is getting Rs 250 a month, this Rs 120 comes to 4 per cent. which is obviously very much less than I ought to pay I would be very glad to pay Rs 400 or so I certainly consider it immoral on our part to impose such a light tax on ourselves and transfer our burden to the hopelessly poor and ignorant classes in the villages I want to shoulder their burden and I want people belonging to my class to do likewise

Q—With regard to your answer to question No 9 dividing the population under various heads, do you think your classification agrees with that of the census classification?

A—No My classification and the census classification won't agree For many purposes I consider my classification better than that When we are trying to apportion the burden of taxes of different classes of people, we ought to give classes with certain well-marked features and characteristics I should think the categories I give satisfy many common tests There is some overlapping, no doubt but it would not be possible to have any classification without some overlapping The intellectual lower middle class at least in the Punjab, should come under the head of artisans, etc, viz, skilled workers whose income varies from Rs 30 to Rs 60 Personally I would stick to my own classification

Q—You think that the Post Office should be run on the principle of "bare return"?

A.—Yes, on account of its developmental value

Q—Does not that principle apply to Railways?

A.—Not so much

Q.—They after all knit up the country.

A.—That is true, but not so much In order to attain educative ends I would have no postal duties on newspapers.

Q—Well, newspapers would serve only classes who, according to your opinion, do not bear the proper share of the taxes?

A.—Now-a-days you must remember even in small villages newspapers are read by the people and villagers take a lot of interest in them.

Q.—Why do the profits on coinage constitute a tax?

A.—They do constitute a tax. I would make a distinction between the coinage of rupees and 8 anna silver bits and the coinage of subsidiary pieces. In the case of the latter, the surplus amount, the difference between the two, face-value and the metallic value, is considered part of the current income, but in the case of the rupee and 8 anna bits, the difference is appropriated for certain specific purposes All I say is for the time being it is a tax. Where does the difference come from?

Q.—It comes in this way. A rupee is printed on silver and a currency note on paper. If this brings about an economy for using all currency notes and bank notes, for the same reason the using of silver is also an economy and based on scientific principle

A—I would put it like this Suppose the Government regulates the coinage of rupees very carefully, can it not use the profits in the way it likes—even for the purposes ordinary taxation is used. It uses the profits for say, constructing canals, railways, etc In that case the profits would not be distinguishable from the money taken in the ordinary revenues

Q—I would submit the profits are essentially of the same nature as commercial undertakings The Government instead of 16 annas silver puts in 10 annas worth of silver and gets 16 annas Therefore it is economising in national resources in the same way as the Banks economise and gets a profit, it does not mean that it involves hardship on the people

A—If you were to use notes only, it would be much better then.

Q—Undoubtedly if you were to eliminate gold and silver so much of the national wealth would be saved which would be available for other productive purposes But if Government instead of putting in 16 annas silver, only puts in 10 annas silver, does it mean a monopoly?

A.—The Government in retaining some of the silver is taxing the people in a way. To the individual it does not make any difference, really speaking he is, in a way, deprived of part of the money which ought to belong to him. Theoretically, of course, I agree with you that the note economy is the best monetary economy. But the man who finds that there is silver worth 10 annas only when he has a rupee in his hand, certainly feels that 6 annas worth of silver is in somebody else's hand Therefore I consider that something is taken away from him I should think it is a tax derived as the result of a monopoly, and if that is invested it brings the Government an income.

Q—Now turning to the question of water rates, you say that the fourth, that is, to charge by volume, is impracticable. May I know why you say that it is impracticable?

A—Because the case here is very different from that of charging according to volume as in Simla and other places In water-works it is quite possible to determine the volume because you are confined to a small area, but in the case of canals where the thing extends over hundreds of miles, how are you going to measure the volume?

Q—Suppose we have a gauge to measure the water?

A—Well, then you will require a very large agency to supervise it.

Q—The agency is already there in the canal irrigation department?

A—I believe it will give canal officials another handle to oppress the poor cultivator The canal patwari would probably use this as another occasion to wring more money from the peasant.

Q—Well, they could not tamper with the gauge?

A—I think they will do even that.

Dr Paranjpye. *Q*—You said in your answer about average income, that the estimates have got to be adjusted according to the scale of prices I quite agree with you there Have you heard the recent theory propounded by Professor Hamilton that the real revenues received by the Government have not increased taking into account the increase in prices? Do you agree with him?

A.—Broadly speaking I would agree with him. I am inclined to think that if allowance is made for the rise in prices there has not been much increase in the total national burden of taxation. There has been only a change in the distribution of that burden

Q—What addition you will make to that given by Messrs Shah and Khambata?

A.—I would consider that the income comes somewhere between Rs 90 and Rs. 100. I could say this positively of the Punjab where I know conditions fully and to some extent of the United Provinces. I think the *per capita* income is not more than 90 or 100 rupees

Q—You gave a calculation of Rs 120 as your tax, is it the tax you pay in Patiala alone or in British India also?

A.—I made allowance for both. The rate of income tax for people of my income in Patiala State is the same as in British India.

Q—What other tax do you contribute in addition? I think you must be using some luxuries, foreign cloth, etc, and pay something in the shape of customs, etc.

A.—Just a little I might be paying I do not use much foreign cloth. I may be lucky in certain respects I escape some taxes though not all.

The President Q—In reply to question No 7, you say that the estimates 'are helpful in so far as they aid the adjustment of the burden of taxation from time to time.' I want to know whether there is any other use except for comparisons with the past estimates of the same country

A.—I have already answered that in reply to a question of Dr. Paranjpye The *per capita* burden of taxation may not have varied during the last 20 or 25 years Yet on account of the rise in prices the burden of the tax so far as each class is concerned might have changed a bit and when we are considering different periods separated by considerable time, we ought to see whether, even if the *per capita* burden be the same as before, the distribution is the same or not.

Q.—A comparison of average incomes will help you to decide whether the distribution between the classes is shifting?

A.—That does not follow.

Q—With regard to answer to question No. 9, don't make a distinction between the urban and rural classes?

A.—Simply because they live in villages? There are many classes in rural areas whose economic interests are more allied to certain classes in urban areas than to other classes in rural areas

Q—Taking the money lender, for instance, whose cost of subsistence in urban areas is much higher than in the village, would you impose the same tax upon him?

A—Certainly In fact I devoted a good deal of time to this question My first impulse was to draw a distinction between rural and urban areas and to make some allowance for the difference in the cost of living There was a reference to the conditions in Denmark where a distinction is made in this respect. Finally I rejected this on the ground that the urban people have other special advantages For example they spend much less for the education of their children Then again a man living in the urban area has many other social benefits He has better protection, more light, better sanitation, better medical relief. Considering the numerous special advantages that people in urban areas get, I would not make any special concession in their case, except perhaps in the case of Bombay, Cawnpore and such other big cities where there is a congestion of population and where the house rent is very high In other places there need be no special concession or privilege in the case of people living in urban areas, because their higher cost is compensated by the very great advantages which they derive from Government activity

Q—Suppose you take the case of a clerk drawing Rs 100 a month. Would you say that his surplus is as great in the city as in a village?

A—But he takes greater advantages from the activities of the State than the man in the village does Certainly I won't mind much if you *take my* income tax provided you give my money's worth. That is why I do not make any concession for them unless it be in the case of very big and over-populated

Sir Percy Thompson Q—In your reply to question No 33 you say that the rates of income tax for higher incomes are rather excessive Given the fact that the State has to raise a certain amount of revenue, do you think that the taxation on higher incomes is out of proportion when compared with the other taxes? Do you mean that the richer are too highly taxed in this country?

A—I would put it like this We have firstly to see that no class is particularly heavily taxed. Secondly we have to see that the amount of capital available for new industries is considerable. The only way to do this is to stimulate savings and through them productive enterprises. My impression is that the present super-tax coupled with income tax trenches seriously on savings and therefore hinders economic progress. In the larger interests of the country I would advocate some relaxation in this respect so that the volume of savings may be enlarged and industrial enterprises encouraged.

Q.—So you want to transfer the present burden to lower incomes?

A—Yes, in the interests of the industrial advancement of the country

Q—With regard to the reduction of the exemption limit to Rs. 600, is it not a very low limit when you take into consideration big cities, like Calcutta or Bombay?

A—I have considered this question very carefully The reason why I put down the figure at 600 was that I wanted to amalgamate the Land Revenue system with the Income-tax system and in order that there might not be a serious fall in the revenues of the State, I had to select this figure But I would certainly say, as I have already said, that this is very low in cities like Bombay and Calcutta You can raise the figure in such cases.

Q—It may be true of India but it is certainly true in England that the Government pays to its officials who are located in some of the big cities a larger salary They do mark the distinction in the cost of living in small or big towns by giving increased pay.

A—But what about the increased benefits that the city people get as a result of the contribution to the revenues of the State?

Q—I do not quite follow you with regard to that. But is it not a fact that for the ordinary necessaries you will have to pay more in a city than in a village? Does it not make the surplus available for taxation smaller?

A—But then he gets special advantages and facilities by way of cheaper education for his children, by way of cheaper medical relief, by way of general comfort, etc, than the man in the rural area My point is this What matters is not so much the amount of money paid by the people but the return that the people get for the money they contribute. The man may contribute a larger percentage but in return he gets more advantages.

Q—The advantage he derives by way of education, lighting, etc., is not paid for out of the income-tax. They are paid for out of the money he pays to the local bodies

A—In India at least people who live in towns have special advantages How is it that the vast majority of the educated people here come from the urban areas? The simple reason is that there the cost of education is less The boy who lives in the city merely goes to the school and pays the fees If he is clever he may not pay anything at all. But a man with the same income in *a village will not be able to send his son to the school and get him educated* Of course, I would not mind some concession being shown to people living in big cities.

Q—I do not quite follow what you mean by your last sentence in the answer to question No 33, 'I would however introduce the system of abatements'. Now there are two ways of securing graduation One is by having different rates on different amounts of income and the other is a system of abatements In England you have the latter system Would you introduce it here on top of the system of different rates?

A—Certainly for lower incomes.

Q—But you already do that by taxing them at a lower rate.

A.—No, I will point out the difficulty. A man getting Rs 2,000 a year pays no income tax but a man getting Rs. 2,010 is asked to pay, say, Rs 50, so that he is left with an income of Rs 1 960 But a man who actually gets an increase of Rs 1,990 is better off than this man getting Rs. 2,010 and paying a tax

Q.—There is a section in the Act which provides a remedy for such a state of things.

A.—I do not know. But I know that people do not claim it

Q.—Section 17 of the Act provides it.

A.—I think most of the people are not aware of it.

Q.—But assuming that it is the case, would you not complicate the case by having a system of abatements?

A.—As I have advocated the lowering of the minimum, I would not have a system like that. I would only tax the surplus above that

Q.—The English system has changed since 1920 There are two ways of graduating income. One is by having different rates for different sizes of income, i.e., for an income of, say, Rs 600, you may have a very low rate. The other system is to exempt the first Rs 600 I would ask you whether you prefer the system which has been adopted in England

A.—Can't you combine the two?

Q.—Impossible

A.—Why? To a man whose income is very great a small exemption of the type of the exemption in England under the previous system would not really matter much Suppose there are two persons, A and B A's income is Rs 700 and B's Rs 2,000. I exempt Rs 600 in both the cases. Then I tax A on Rs 100 and B on Rs 1,400 After this exemption you can apply graduation I think the two can be fitted in.

Q.—That is very complicated.

A.—I do not see much serious complication

Q.—I may suggest to you that having different rates for different classes of income is itself a very difficult system It was abolished in 1920 on the recommendation of the Royal Commission which came to the conclusion that even in a country like England it was unnecessarily complicated

A.—I should like to try my system

Q.—You say you would advocate some differentiation in favour of earned incomes or of sums shown to have been invested in productive enterprises How in practice you are going to tax at lower rates the sums shown to be invested in productive enterprises?

A.—In this I had only in mind my idea of taxing agricultural incomes at a higher rate I would make a difference at present only in case of such incomes

Q.—Can you say that if I invest a part of my income in productive enterprises, you would tax that portion of the income at a lower rate? Is that what you say?

A.—No, I do not mean that I would make differentiation only between agricultural and other incomes

Q.—You say it is not practicable to make allowance for the number of persons supported out of particular incomes Why is it difficult for an assessor to find out whether a person is married or not?

A.—In India it is rather difficult Here we have in many cases a number of dependants who have to be supported People would rather cut down their own expenses than turn out a single relative who has socially a claim on them

Q.—You say it is impossible then?

A.—Yes Moreover the number of unmarried persons in this country is very small Nearly all the grown-up people are married The grown up people who have an income which can be taxed are generally married The class of unmarried in India is very small, and their income is so very small that they will not come within any system of taxation.

Q.—Would you make any allowance for children?

A.—No.

Q.—Well, it has been suggested to make some allowance for a child who is being educated so as to encourage education Do you think it would be practicable?

A.—Receiving education of any kind, even primary education?

Q—Yes.

A.—Well, if you are going to extend it to primary education even, I do not think I can support it.

Q—You say you are strongly in favour of the removal of the exemption of incomes derived from agriculture which was given under Act II of 1886 In saying this do you make any distinction between cultivating tenants and landlords?

A—Well, it is very difficult to maintain the distinction.

Q—Could you tax on rents but not on profits?

A—In the case of cultivating tenants?

Q—Yes

A—It would be difficult Perhaps it may be possible, but it would certainly be difficult

Q—Where will the difficulty be? Suppose you tax only on rents received by landlords?

A.—That you have already taxed

Q.—No

A—You mean to say in addition to the land revenue because I look upon land revenue as a tax on rents

Q—Quite so, it is a tax on surplus, but income-tax is a very different thing

A—Personally I would advocate the amalgamation of the two systems.

Q—I thought you have quite definitely advocated a different tax! Then it is conditional on the land revenue being abolished?

A—Yes, Sir.

Q—Certainly there would be a great loss of revenue

A—Certainly it would be a great loss, but I think it could be met in other ways by lowering the exemption limit of income-tax.

Q—Suppose you have a limit of Rs 600?

A.—Personally if you could devise a system by which you could exempt cultivating owners and tax only the surplus as you say, I would have no objection This suggestion is only conditional, if you exempt the cultivating peasants and impose income tax in addition to the land revenue on landlords, I would have no objection to it

Q—You say in answer to question No. 41, that the introduction of a centralised and more efficient system of income-tax has not been effective What is your reason for that?

A—Well, that is my opinion.

Q—Well I think everybody has said that the establishment of a centralised authority has removed the reproach which used to exist?

A—Well it has partially It has improved the system to some extent, but it has not removed the reproach altogether.

Q—I do not quite understand what you mean by the English system. Do you mean the employment of local bodies to supervise the assessment of income tax? If so, how would you select such an agency in a place like India?

A—Well, it is difficult, but to start with I would try it in a few selected places and select men as best we can.

Q—Would you allow the Government to select? Don't you think that there will be bribery and so on?

A—That is exactly why I say there are difficulties in the scheme, but I would like to try it in a few selected areas. I would select people very carefully from different classes

Q Whom would you select?

A—People who are generally reputed for their integrity and where practicable I would like to keep one professor on the committee. I do not see why it should not be tried in a place like Lahore. We should not hesitate to try it at least in a few selected places.

Q—You approve the collection of income-tax on bearer securities by means of a special stamp duty, but in that difficulties arise when you have to claim repayment. Would it not be an administrative difficulty?

A.—It would avoid evasion and would also be easy and cheap

Q.—Would it not affect the poor people?

A.—No, generally these securities are held by rich people in India, so there will not be much difficulty.

Q.—I do not quite understand your reply to question No 46 What is the system in operation in Indian States?

A.—My objection has lost its value. It is only three weeks ago that it was given out that refunds could be claimed by people in Indian States also I would like to submit that the process there is very circuitous Why should not the certificate of the head of the Income-tax Department be considered enough for the purpose The matter goes to the head of the department first, then to the Political Agent and then to the British Indian authority thus making it circuitous If the British Indian authorities accept the statement regarding a man's income given by the head of the Income-tax Department in the States there would be no objection to the system But the statement has now to go through so many channels, which makes the procedure dilatory.

Q—That is what is done between the United Kingdom and India. In the United Kingdom we do accept certificates given by the head of the department in India.

A.—If that is done I would be quite satisfied

Q—Was that income derived from the Indian State or from British India?

A—That income was derived in British India and taxed in British India

Q—Where is the double taxation then?

A—My point is that the State also imposes the income-tax and the same is taxed also in British India

Q—Would not the Patiala State accept the statement from British India that it has already been taxed there?

A—The State authorities hold that if you are resident in the State you are liable to the taxation in the State itself We are entitled to a refund from the Indian Government; in fact most of the companies write down on the dividend warrant that the amount of the tax can be claimed if the man is paying less A man can claim refund, but the process by which he can claim refund is dilatory.

The President *Q*—(A graph was shown to the witness) Please glance at this graph which gives the Indian and other rates of graduation You say that the present graduation is not at all satisfactory and that you will frame your own, with special reference to the peculiar conditions of this country Can you tell us which line will resemble your scheme? Have you thought out the details of your scheme?

A—Well, to a considerable extent

Q—Can you reduce your scheme to a form of graph and send it on to us?

A—I think I should be able to do it I shall send it later on

Q—Do you consider that it would be proper to impose a protective duty to enable India to be self supporting in the matter of importing salt? Would it be fair to the Bengal consumer?

A—I would prefer the poor Bengali paying higher prices on salt in exceptional times rather than perpetually

Q—Would it be perpetual?

A—I think it would be

Q—Would not the local factories be able to supply at reasonable prices?

A—I think it would be somewhat higher than the present prices, but I would not object

Q—That is you won't object to protective duties for some years?

A—No

Q—You say that the opening of Government salt depôts would lead to favouritism?

A.—Well, I have a very sad experience of these things Complaints are made by one person against another and the officials are put to great difficulties. Whomsoever you may select, some people would look upon your selection as favouritism. In some cases it is really favouritism, but in others the people who do not succeed in getting licenses represent it as favouritism. I think it will unnecessarily expose the Government to unpopularity.

Q—Supposing you import to a railway station some quantity of salt and put it on sale at a fixed price under Government supervision in addition to what the traders freely import so that people may go to some office and buy salt at a fixed moderate price, will not that tend to steady the profiteering of private dealers?

A—My answer would be this If the Government were to adopt this course, in one case the shop would be superfluous and in the other it would become the only shop in the town

Q—The proposal as I understand it is this The Government shop would be closed for most of the month, and if at any time there is profiteering then the shop would be opened and the people can go and purchase in the Government shop People will be able to know the real price of salt in this way. Why should it not be in the hands of a tahsildar?

A.—You might try, but I do not think it would succeed

Q—You think issue of salt for the purposes of industries should be free, but you don't think so in the case of agriculture?

A.—I don't think it practicable to issue salt free for agriculture, as I think very little salt is used for agriculture. Only very few people use it. I do not grudge the privilege, but the question is not of much practical importance.

Q—Not even for cattle?

A—Not much salt Moreover it is not practicable to make the distinction there.

Q—You say that the Punjab system of excise is short of what you would approve What more would you add to it?

A—I would further put up the rates

Q.—Have you any experience of illicit distillation in the Punjab?

A.—There is undoubtedly some. In fact I had recently a talk with some persons, but I believe it is very much exaggerated.

Q—Have you read the Excise Administration Report of the Punjab for last year?

A—In matters like this, I rely more upon my own information than on these reports

Q.—If it is so common that it is a matter of common talk, must not the total consumption be very large now?

A.—I think it is very considerable in the Central Punjab

Q.—Do you think illicit or licit consumption is the greater?

A.—I think the licit consumption is very much greater than the illicit

Q—I have seen it recorded twenty years ago that in certain parts more than half the consumption is illicit

A.—No, I won't go so far as that The amount of illicit distillation has been growing less and less

Q—Well then you don't believe the last Excise Administration Report when they say that even with the present staff the Government is unable to stop illicit distillation? Would you go on increasing the duties?

A—I would increase them first and then see what effect they have

Q—Do you think that drinking does harm?

A—Not much. The drink problem is not very grave in India except in industrial centres

Q—Then why do you want to increase the duty?

A—Because I want to increase the income of the State

Q.—Have you not already reached the point of diminishing returns?

A.—I do not think so

Q—Is it not the case that the revenue is falling?

A.—It is not quite due to that

Q—What is it due to?

A.—It is due not so much to the rate of the tax as to change in the opinion of the public

Q—Has the tremendous reduction in the number of shops anything to do with that?

A.—It might have some effect on it But broadly speaking I should ascribe the decrease in consumption to the general propaganda against drink

Q—There has been some good done by Temperance activities?

A.—No, not that But the general sentiment against drink is the main cause This is perhaps the best by-product of non-co operation

Q—Would you like to have a heavy duty on *bhang*, using the term in its technical sense?

A.—I do not know the details of this article But speaking broadly, I believe that in the United Provinces the income would be increased a good deal by subjecting it to a higher tax

Q—There are three different products *charas* which is the resin collected separately, *ganja* which is the flowering top of the plant and *bhang* which is the leaf itself and regarded as a drink and not as an intoxicant

A.—But I think this too is an intoxicant For I know that when it is given to people who are not accustomed to it, it makes them dance and do similar things

Q—With regard to the answer to question No 73, are you referring to the auction system?

A.—Yes

Q.—With regard to question No 76, you see no special advantage in the system of having official vendors for opium?

A—No I think we attach rather an exaggerated importance to people's use of opium

Sir Percy Thompson *Q*—In the answer to question No 68, you say that you approve of the imposition of supplementary duties on foreign liquors by Local Governments Would not that lead to impossible conditions if each Government could impose whatever duty it liked? Surely it would mean that the central authority would never know what revenue it was going to get from foreign liquors

A—If a sort of formal conference between the heads of the different administrations is held and as a result of that conference they fix a certain duty to be applicable to the different provinces, a certain amount of uniformity and certainty can be attained

Q—So what you mean is that the duty on foreign liquors might be divided between the Central and the Provincial Governments? I do not see how the sale would be stopped by imposing prohibitive duties

A—If the Provincial Governments impose a sort of stamp duty, say Re 1, or 2, on every bottle of foreign liquor, they can make the foreign liquor so dear as to make it prohibitive In that case it would react on the revenues of the Central Government

Q—I think it is rather an impossible position

A—Viewed strictly legally the Provincial Governments can drive the Central Government to a position of difficulty

The President *Q*—The Bombay Government is levying such a duty now

A—I do not know

Q—Does not the Punjab Government fix its vend fees with reference to past sales?

A—That may be

Sir Percy Thompson *Q.*—With regard to question No 82, would not an export duty on cotton, in normal times, be an oppressive tax?

Q—Is the extortion by the revenue officials worse than the extortion by the land-holders on their tenants, or is the latter worse than the former?

A—The revenue officials are there in both the cases

Q—Is it a fact that the landlord who leases out the land, whether he is petty or big, uses more extortion than the revenue officials in the Punjab?

A—There is no similarity between the two cases The landlord does not submit to the extortion of the revenue official, but the poor peasant proprietor who owns only 7 or 8 acres has to submit to the extortion of the revenue officials.

Q—What I say is, does the ordinary cultivator suffer greater extortion from his middleman who happens to be a petty landlord than from the revenue officials?

A—A tenant has nothing to do with the revenue official at all. The landlord tries to get as much as he can from his tenant

Dr Paranjpye *Q*—Suppose a man has to enter into the agricultural profession, would he rather lease land from the landlord, or would he buy land and cultivate himself and have dealings with the patwari?

A—I think he would prefer rather to buy his own land and cultivate, submitting to the patwari

The Maharajadhiraja Bahadur of Burdwan. *Q*—What are the political dangers you apprehend in your answer to question No 102?

A—I mean by it that a large class of people who are tenants of the State may be used by the State itself sometimes against the national interest of the country This is peculiar to a subject country like India.

Q.—I do not quite follow your remark.

The President *Q*—Would you distribute it on a process of selection or sell it by auction? You say that auction would produce political dangers.

A.—What I had in my mind was this There are waste-lands in the Punjab that are Government property, the question was, should the State retain proprietary rights over the lands, or should it sell them to private individuals In fact I had only these Government waste-lands in view Personally I am strongly in favour of nationalisation of land In case lands are leased by public auction, I would have no objection, but there will be political danger.

Q—Do you mean to say that Government of the day would use these people politically?

A.—Yes

Dr Paranjpye. *Q*—About your view of abolishing land revenue and substituting income-tax, you propose that the minimum should be Rs 600.

A—I would exempt people getting Rs. 600, whatever the source of income.

Q—An income of Re 1 from land would be Rs 1 8 and from the other source would be Re 1 Therefore Rs 400 from land would be equal to Rs 600 from other sources

A.—If an agriculturist's income is Rs 500, I won't tax him. But if it is Rs. 600, I would tax him on an income of Rs $600 \times 3/2 =$ Rs 900

Q—Suppose it is Rs 600, can you tell me what percentage of people in the Punjab would be liable to income-tax? I understand that the holdings in the Punjab are very small generally? Consequently how would you abolish land revenue? Have you got any suggestions to make?

A.—It is there that our taxation system is weakest My whole position is that the weakest point in the Indian system of taxation is that it places an unduly large burden on the poorer people whose income is very small. That is what puts me into difficulty I agree with you that land revenue is a tax on something that can very well bear a tax But what we see is that poor people owning only 5 or 6 acres of land are taxed heavily.

Q.—Are you going to make a present of the land? The land revenue is about Rs 4 crores, if you were to abolish it you must have some other suggestion for making it good?

A.—In the first place I lower the taxable minimum to Rs 600 Would it not add considerably to the income of the State?

Q—No Even if we do that it would not be more than a crore of rupees

A.—No, I do not think it would be so low.

Sir Percy Thompson *Q.*—You say that land revenue is a tax on rental surplus and as such you say that it is a tax?

A.—Yes

Q—What is the reason that you have small proprietors in the Punjab? Is it not the increasing pressure of population on the land?

A—The increased pressure of population on the soil is due to the want of suitable outlets in commercial undertakings

Q—Supposing you exempt small holdings, are you not going to have the same tendency to let those holdings decrease in size still further until they again reach the margin?

A.—On the other hand it is equally likely that he will raise his standard of living a little bit

Q—The population will increase right up to the margin of subsistence?

A.—But it is a flexible thing

Q.—I know it is, but when you take no land revenue, will it not increase up to the same margin of subsistence?

A.—Well, I do not think so He would use the additional money that he gets rather in raising his standard of living.

Q—You know the pitch of the land revenue has been gradually decreased and yet you have got the pressure?

A—If you will merely confine yourself to increasing pressure and do not make allowance for the outlets that are daily increasing, I should think, your position might be right What I would urge is, he is very likely to use his additional income to lift his standard of living

Q.—Don't you think that land revenue is an incentive to the people to work

A.—Economically it may be all right, but politically it is not practicable You must take active steps to provide alternative occupations Merely increasing the land revenue or reducing or lowering the margin would not drive the people to industry The growth of population, I do not think, is quite governed by the idea of subsistence I do not say it would cease to increase, nor do I say that the pressure would materially increase simply on account of the abolition of the land revenue If it has any effect, it is negligible

The President *Q*—I will read a passage from Mr Calvert's book "Wealth and Welfare of the Punjab," and ask you if you agree with it

"In other chapters, it is pointed out that the decrease in the revenue demand under British administration has facilitated the introduction of the evils of facile credit and consequent debt, and of high land prices and resultant speculation by non-agriculturists, that is to say, the decrease in revenue demand, which was intended to benefit the cultivators, has actually involved them in temptations which they have been unable to resist and in troubles which were new Experience shows that the people prosper more under a full but moderate assessment than under a very low one"

Do you agree with that statement?

A—No, I don't

Q—Your reading of economics of other countries has not shown you that the high land tax connotes prosperity and *vice versa*?

A—Not like that The point that I particularly wish to emphasise is that there is no getting away from the fact that even the low land tax imposes a great burden on the poorer peasants

Sir Percy Thompson *Q*—You know what is the real burden on the people with small uneconomic holdings

A—They are bound to exist unless and until alternative avocations are provided If alternative avocations are provided you may impose this burden I advocate the abolition of the tax simply for the fact that I do not find any other way out of this difficulty If there had been a way out, probably I would have gone further than most people would go.

Q—What would be the cost of the land revenue staff in the Punjab Is it higher than it is elsewhere.

A.—I have now seen his statements published in the papers. But I do not consider that practicable. For instance, in the Punjab we have, say, Rs. 4 crores of land revenue demand. According to Sir Ganga Ram's proposal, multiplying 4 by 30 we will require 120 crores of rupees In the first place, I doubt very much whether many people will take advantage of this proposal and then even if they do take advantage of it, the interest which they will have to pay would be so great that all the advantage the proposal has would disappear.

Sir Percy Thompson. *Q*—His suggestion was that there was a great deal of hidden capital which will come forward.

A.—I do not know what he meant by hidden capital The only unproductive capital that there is in India is in the form of ornaments. There is very little of capital in the form of cash actually buried under ground.

Q—But where do all the imports of gold go?

A.—They are turned into ornaments

Q.—It is a fabulous quantity that is imported

A.—All of it goes to satisfy the inordinate desire of Indian women for ornaments The Punjab consumes a larger percentage of gold than is justified by her population and most of it is turned into ornaments In fact—I tell you from my personal experience—I do not know of a single individual who has buried under ground any gold as such.

Dr. Paranjpye *Q*—Do you think it possible to levy a tax on tobacco in India?

A.—Yes, I do think so.

Q.—In what way would you levy it?

A.—I would bodily import the license system which is right

Q—Is a definite amount to be paid by the agriculturist for any particular year for his cultivation?

A.—The agriculturist does not pay a single pie

Q.—He must only sell to the licensed vendor?

A.—Yes

Q—The monopoly of vend should be sold you think by public auction?

A.—Yes.

Q—You would put even the roughest tobacco under this system?

A.—Yes. The vast majority of people consume the ordinary country-made tobacco and between the different varieties of this country-made tobacco, I would not draw any distinction Even snuff should be included in that. There is no direct tax as such but you sell licenses as in the case of liquor shops.

Q—You consider that a family concession should be given, don't you think it would be abused to a great extent?

A.—In every tax you are bound to have some leakage, but if it works on the whole satisfactorily I would approve of it I do not think it would lead to serious abuses.

Q—In the case of opium do you think any such allowance should be made for family consumption?

A.—No, nor is it in the interests of society to do so I would not put the seal of my sanction on its use by allowing a certain amount to the grower.

Q—Would you make it compulsory that no man should keep any tobacco for domestic consumption even from his own fields? Would it not be better?

A.—In the beginning at least I would make some allowance.

Q—Have you any idea what rate should be imposed. I think you allow it by auction Won't you put any condition upon him?

A.—Absolutely none. I would make it as simple as possible

Q—So in one village tobacco might be dear, and in another it may be cheap?

A.—No, the difference would not be great. The knowledge that in the neighbouring village it is sold at a low rate would lead the licensee to sell for less amount.

Q.—Would you impose a limit on the consumption of tobacco?

A.—Yes

The President. *Q.*—You say that your contractor of the monopoly would prevent any illicit practice?

A.—Yes

Q.—One difficulty I see is this. What about the man who grows tobacco for sale to a manufacturer of cigars or cigarettes outside the areas A has bought the monopoly within an area, B has got the cigar factory in another district, what will B do if he wants to buy tobacco? How would he do that?

A.—He will send his agents who can go and buy.

Q.—Can they go without reference to the contractor of the monopoly? Then the monopoly is only for sale and not for buying?

A.—Yes, only for sale.

Q.—You won't allow anybody to possess licenses?

A.—Yes, we limit the number of possessors, that is how we tax it

Q.—You take an area comprising of 20 villages and you sell the right of vend, but what will happen to the cultivator who has grown tobacco which the monopolist won't purchase?

A.—Well, gradually some sort of adjustment would take place

Q.—How would that adjustment take place?

A.—You see in actual practice serious difficulties of this sort won't arise In actual practice the contractor makes arrangement with the cultivators about the kind of tobacco to be cultivated and so on

Dr Paranjpye *Q.*—In your answer to question No. 140, you say you would exempt all inheritances up to Rs 10,000 Can you tell us how you have arrived at that limit? On what basis you have given that figure?

A.—Mainly on the ground that a considerable number of people who belong to the middle classes get a house, some ornaments, etc, in the shape of inheritance It is for that reason that I have put this figure

Q.—Well, ornaments belong to women, they won't come under the category of property, and then a house will not be estimated at the value required to build it but only on the rental value So I want to know how you got the figure of 10,000 and on what basis you have worked it out?

A.—My reason is simply to exempt the lower middle classes

Q.—Do you think that middle class people have got 10,000 rupees?

A.—Well, I believe there is a considerable number of such people at least in the Punjab A cultivator may have 18 or 20 acres of land There is quite a large number with 10, 15 or 20 acres As I want to exempt these, I put that figure I would like to exempt one more class of people If the inheritor is a widow or a minor child, I would make this exemption Otherwise I would lower the exemption I would in this connection follow a table relating to California and given in Plehn's Principles of Public Finance

Q.—Would it be better to split it up into two taxes one is common to all and the second varying according to different classes of relations and the amount of legacy received?

A.—I don't want to make it so complicated in the beginning

Q.—At what rate should death duties be charged Say in the case of a major son inheriting an estate of Rs 50,000?

A.—I will have it at about 3 to 4 per cent

Q.—Rising up to?

A.—Rising up to the maximum of 10 per cent.

Q.—Well, with Rs 10,000 how will you begin with?

A.—I will charge about one per cent

Q.—How many estates do you think would be liable to death duties in this manner?

A.—I cannot say that exactly, but I can say that they are the estates fitted to bear this burden.

Q.—Suppose you have a case where one man has got 5 sons and a property of Rs 50,000 and another one son and a property of Rs. 15,000. How would you tax, is there any difference from the State point of view?

A.—Well, I would take the size of the sum received by the heir, or the total property left by the deceased according to the circumstances explained in my reply to the questionnaire.

Q.—If a man is able to collect so much, therefore the State must be a partial heir of the property that is left?

A.—Well, in these things no serious question of principle is involved The State wants to get some money, it gets it in the least troublesome way. It is not a question of theoretical trusteeship of the property

Q.—How would you treat partitions during the lifetime of the father? Would you subject even this partition to the same conditions as death duties?

A.—At least in some cases I would like to impose the same condition.

Q.—How would you treat religious and charitable bequests?

A.—I would exempt them from these duties.

Q.—On the other hand there is another gentleman who said that they should be taxed at a higher rate. You think they should be absolutely free?

A.—Yes.

Q.—What is your reason?

A.—My reason is this Most of the charitable institutions perform some services They perform services that the State may well be called upon to perform For example, a man may leave a lakh of rupees for a hospital or some educational institution

Q.—But suppose he leaves a lakh of rupees to a *math* or temple or for the purpose of feeding a thousand Brahmins or for feeding so many monkeys at Muttra?

A.—Fortunately much of the misuse to which these temples and *maths* have been putting their money is now decreasing On the whole the money given away in charity at least in the Punjab is socially beneficial.

Q.—How would you treat *Wakfs*?

A.—I think it is the same thing as a gift.

Q.—It is a trust Something like a *Gurdwara* land attached to a temple.

A.—Then there is no difference between the two cases. You have to take the situation as a whole I think we would do well not to take these institutions into consideration.

Q.—Do you think that death duties should be uniform all over the country or administered by the different provinces at different rates?

A.—They should be administered by the Central Government.

Q.—What amount would you consider likely to be realized by means of death duties in the whole of India?

A.—I have not attempted to make an estimate.

The President. *Q.*—In answer to question No 143 you say that the difficulty arises from the fact that the death of the head of the family would be on occasion, not of additional strength to the survivors, but rather of weakness and you think that the difficulty exists to a greater extent in India than elsewhere?

A.—Yes.

Q.—But would it not be exactly the reverse in a joint family where there are several adults?

A—Of course, the difficulty exists everywhere and Bastable makes a reference to it But here the difficulty is particularly great, because in this country the women especially cannot manage their property efficiently In European countries that is one of the great advantages they have of a freer life and lack of restrictions on the female folk They manage their properties in many cases quite as efficiently as men But in India if a man dies leaving a widow, she would not be able to manage her property at all

Q—With regard to question No 153 you say that if the benefit is given to Bengal, the Punjab would also claim the salt revenue Why?

A—In fact, I may refer you to one of the recent discussions that took place in the Punjab Legislative Council A number of members wanted the Government to urge on the Indian Government the refund of the money which it realised as tax on the rock salt of Khewra mines

Q—You say you would treat a tax on tobacco as provincial, but you have not said how you would treat excise? What I ask you now is, would you reserve it to the Central Government? There are three proposals which seem to be practicable One is tax assessed by the Central authority with additions for local purposes, the second is separation of the sources of revenue and the third is the division of the yield What I ask you is, would you advocate the reservation of this tax to the Central Government Say the excise duty on spirit is Rs 5 for the Central Government, and the local Government may add much more as they like for their own purposes? The object is to widen the basis as much as possible and not leave one Government dependent upon another. In a Federal Government would you advocate a part of the excise revenue to be provincial?

A—It would give greater stability to the income of the Central Government but I do not know whether on the whole it would be quite a forward step. I would rather advocate a system of separation of sources than mix them up unduly

Q—It is not the separation of sources, but it is the disadvantage of one Government depending upon the other?

A—In that way you make provinces dependent on fluctuation of the seasons In these things it would be better not to interfere with the independence of the provinces But I see no objection to introducing this system Whatever the rise and fall of the income be, it should be shared by both by fixing a certain proportion for the provinces and a certain proportion for the Central Government

Q—What will you do in the case of a firm which has got its branches in two or three provinces? Which province would have the income-tax?

A.—I think the province where the firm is located.

Q.—You mean the headquarters of the firm?

A—No, where the factory is located.

Q.—Suppose the factory is located in two or three places?

A—Well, it will be difficult of course.

Q—You recommend that life insurance should be made a State monopoly Have you thought about explosives?

A.—No, Sir.

Q.—Don't you know that it has been made a monopoly in some European countries?

A.—I do not think it can bring a large income to the State

Q—What about fireworks? Are they not used largely in India?

A.—No, I do not think so. It is gradually decreasing. In the Punjab there is a strong propaganda against using these fireworks, etc. This practice is diminishing.

2nd February 1925.

Delhi.

PRESENT :

SIR CHARLES TODHUNTER, K C S I , I C S , President

SIR BIJAY CHAND MAHTAB, G C I E , K C S I , I O M , Maharajadhiraja Bahadur of Burdwan.

SIR PERCY THOMPSON, K B E , C B

Dr L K HYDER, M L A

Professor M. A. HASAN, M.A., F.R.E.S., Islamia College, Peshawar, was examined.

Written memorandum of Prof. Hasan.

Q 13.—It depends upon the nature of the service supplied and the demand for it, whether a fee, a price, or a monopoly rate is charged for it If the service is such that it is in the interests of the community that it must be supplied to certain individuals and the individuals are not willing to purchase it at high prices, then it must be supplied either gratis or at a low charge, and the loss may be made up by taxation, *e g* , inoculation, vaccination, supply of cinchona, of water in a municipality and primary education to the poor classes. These should be charged very low rates, not giving commercial returns. While other services should either be charged a price or a monopoly rate, the latter taking the form of a flat rate or differential rates The element of tax will appear in the case of an undertaking, which tries to secure a monopoly profit, *vide* "Outlines of Economics," by S J. Chapman, page 397, "A tax is a compulsory contribution, made to Government under stated conditions, when the contribution is not a *quid pro quo* for a specific service rendered When a Government carries letters and demands more for the service than is requisite to reimburse it, the excess charge is to be considered a tax"

Q 14.—To decide whether there is any and what element of taxation from the returns from railways, tramways, etc , the following points should be kept in view .—

(1) If there is any net gain from the undertaking; net gain meaning gross revenue *minus* working expenses, interest on capital, insurance charges, excluding the annuities for paying off the tax, these net gains partake of the nature of a tax

(2) If there is a uniform rate charged or differential rates In the latter case there exists an element of tax even though there be no net gain from the undertaking The higher rates pay a tax for the benefit of low rates Railways, for instance, discriminate in three directions—(*1*) charging different rates to the classes of passengers, (*2*) to the different goods, and (*3*) to the different distances the goods are carried.

Q 27.—Not necessarily, *e g* , persons who are not able to earn anything such as the aged, the insane and the blind, should in no case be taxed

The limit of exemption under the most pressing circumstances is the level of subsistence, meaning the amount of money which, when spent, keeps the efficiency of the individual and his family intact. This is the lowest limit, but the limit of exemption varies in different countries with varying conditions [illegible] to spend the money better than the [illegible]ds of the State. The growing [illegible]ponsible Government require addi[illegible]d until it touches the subsistence level. This applies to the highly advanced country.

Q. 29—It should be neither direct nor indirect taxes that should touch the pockets of the poor. On the principles of equity, salt tax and import duties are not defensible It is only because they are not resented that they are levied, for the tax-payers do not know what they are paying as a tax But a poll-tax or capitation tax is worse than these even because it is direct and must create ill-will

Q 35—Unearned income should be charged a higher rate than earned income.

Q 36—I am not in favour of allowances for families for it acts as a premium upon marriage, while I would like to tax marriages to discourage them Indian conditions require it

But I should like to see other improvements in the income-tax, *vide* my papers submitted to the Committee.

Q 38.—Yes In my scheme income from land and agriculture would all be treated like other incomes, the only distinction being earned and unearned incomes—the latter including rent from land and interest from capital lent to agriculturists or invested in land Exemption would be allowed and graduation would be applied

Q 40—I would allow the lowering of the exemption limit only under certain conditions —

(1) If there be no possibility of reducing expenditure (when the purchasing power of money rises, as it is sure to do with the return of normal conditions, there will be possibility of reducing the scale of services).

(2) If the exempted minimum be deducted from the lower income and tax levied upon the difference, as is done in the United Kingdom.

(3) If the purchasing power of money rises.

Qs. 49 and 61—Drinking and using of drugs like *ganja* and *charas* should be prohibited like gambling, and the loss of revenue may be made good by the following taxes —

(1) A death duty of reformed nature, *i e*, a small estate duty combined with a graduated legacy duty

(2) Monopoly of tobacco like opium

(3) Marriage duty

(4) Higher import and export duties

(5) A tax upon agricultural income

(6) Increment value tax.

(7) By crediting to revenue, the interest from that invested portion of the paper currency reserve, which is made for periodic demand for currency.

(8) An entertainment tax

Excise duties on manufactures, which are to be given protection by the Government, should be abolished They should be levied upon unprotected goods such as sweets, perfumery, aerated waters, cartridges, the duty should be a little lower than the corresponding import duty.

Q 98—Yes. I do agree with the criticisms and I would like to reform the land revenue on the lines of the scheme outlined in my papers.

Note by Professor Hasan on the Indian System of Taxation.

"The War has been a first-rate professor of economics. It has taught with great efficiency invaluable lessons and not the least of these is the value and importance of really sound banking in the body politic."

Mr. Findlay Shirras has uttered a great truth in his masterly work "Indian Finance and Banking" and the bearing of it is not confined to banking alone It holds good of all the component parts of the body politic: industries, trade, exchange, fiscal and financial system of the State, etc. Before the last war made its appearance every system was following its own line of evolution War put to test the soundness of each system, bringing home the weakness of each During the period of war all the systems adjusted themselves to the fluctuating conditions as best they could In India new industries came into existence; certain trades flourished and reaped huge profits Prices rose National expenditure rose step by step and national revenue was raised by additional taxes, higher import duties and borrowing, which inflated the currency Currency and exchange were piloted through with great skill by the Government The war has passed off, leaving behind a legacy of disordered economic organism. But order is gradually emerging out of disorder and things are returning to their normal conditions Trade is feeling its way to the regular channels Prices are coming down For all the changes that have taken place or are taking place, different nations want to have definite information They do not want to let the present tendencies work themselves out uncontrolled, but to control them and utilise them to their best advantage, and hence the appointments of the different Commissions and Committees; the Industrial and the Fiscal Commissions, and the Economic and the Taxation Enquiry Committees

Our taxation system owes its present form to a variety of circumstances

(1) To the changing economic conditions of the country From a poor agricultural country it is growing into a manufacturing one with a land-owning class, growing middle class and wealthy capitalists financing both the industries as well as trade

(2) To India's political connection with England, receiving its policy from the latter

(3) To the economic thought of the different times, to Adam Smith for the free trade policy and so on

Constant researches have been made in the different branches of economics and now we are in a position to utilise these for ourselves and build up such a system of taxation as may have as few defects as possible and may also suit the existing economic social and political conditions of the country.

A perfect system of taxation is not one which satisfies all the canons of taxation but one, which, in addition to being equitable and economic, is also expedient For instance, the present land revenue is very unjust and defective, as is shown in the later pages, but we do not know how far it is expedient for the Government to overhaul it altogether.

It may be politic to improve upon the present system to make it equitable, economic and elastic

I shall try now to devise a taxation system which will meet the needs of the time

Let us start by classifying the productive forces of the country—the four agents of production—land, labour, capital and enterprise

Land, meaning the natural environment, including the agricultural land, building land, mines, rivers, lakes, waterfalls, game preserves, forests and fisheries. Land also includes all the capital invested in land

Labour means all wage-earners and also capital invested in them

Entrepreneurs include all those who undertake the risks of production—shareholders of a company, partners, etc

Capital means all wealth besides land.

Some of these agents of production lie idle, *e.g.*, land, which is used for speculation or sites in general, capital, hoarded in the form of ornaments; labour such as beggars, thieves and rich idlers.

This classification will prove useful, when we study assessed taxes. Let us take up the income-tax. The income-tax schedule, as modified in 1922 23, runs as follows :—

A.—In the case of every individual, every unregistered firm and every undivided Hindu family

		Rate
(1)	Total income less than Rs. 2,000 .	*Nil*
(2)	„ „ between Rs. 2,000 and Rs 5,000	5 pies
(3)	„ „ „ „ 5,000 „ , 10,000	6 „

and so on, until the rate becomes 1 anna 6 pies per rupee for income above Rs 40,000.

Super-tax rates

		Rs. A. P.
0 to Rs. 50,000	.	. *Nil*
0 „ „ 75,000	in the case of	„
75,000 to 1 lakh	undivided Hindu family	. 0 1 0
50,000 „ „	.	. 0 1 0
1 lakh „ 1½ lakhs		0 1 6

and so on until the highest rate becomes 0 6-0 per rupee for 5½ lakhs and over.

The taxable minimum is Rs 2 000 and there are now 6 classes of income-tax-payers instead of 4

The present income-tax is progressive and satisfies the canons of taxation, but it is defective in the following respects —

(*1*) In other countries a distinction is made between earned incomes and unearned incomes The former are charged a slightly lower rate. This is on principle necessary, for, in the first place the source of saving lies, in the first instance, in the earned incomes, and once capital is saved, saving is made easier, and in the second place it is not capital alone (I mean the amount of money spent upon one's training) that is responsible for his earned income, but also natural endowments with which he is gifted To make this point clear take an investment of Rs 1,00,000 returning Rs 10,000 and a man earning Rs 10,000 in the form of salary The latter returns are not due to Rs 1,00,000 spent on his education but also due to his inborn abilities, to the differential advantage he enjoys over others of his kind

(*2*) Our income tax allows no abatement or deduction of the taxable minimum from the incomes of the lowest assessees In other countries provision is made for the deduction of the taxable minimum from the income of the tax-payer and the tax is levied upon the difference only This provision is necessary In addition to this abatement allowances are given for children, relations and family In my opinion there is no need for any allowance of this sort It acts as a kind of inducement for marriage It may suit the conditions in England but in India the problem is qui[illegible]
the standard [illegible]
be stopped by [illegible]
duties, etc T[illegible]
and requires special consideration because the single income is made up of many individual incomes, which taken by themselves would bear no tax or only a low rate but because they make a big income, they are charged a higher rate. A lower rate should be charged to all such incomes But if this is done everyone will try to pass for an undivided family The Government should determine what constitutes an undivided family and then introduce the lower scale applying to the super-tax as well as the income tax.

(5) One minor defect requires attention. It is that, at present, the higher rates absorb 100 per cent of the increase in income up to a point. An income of Rs. 5,000 is charged 5 pies in the rupee, *i.e.*, the net income after deducting the tax is Rs 4,870 When the income rises to Rs 5,001, it will be charged 6 pies per rupee, and therefore the net income will fall to Rs 4,848, and the tax-payer is the loser by this rise of his income. This does not apply to the super-tax, because there each rupee of the additional Rs. 50,000 pays its own tax This can be remedied by a special legislative provision, charging certain incomes, assessed to two rates, at an intermediate rate, *e g*, income between Rs 5,000 and Rs 5,060 will be charged 5 2 pies in the rupee

The next item of importance in revenue is customs. It ranks second only to land revenue in the Indian Budget, and now that the latter has been made over to the provinces, it will occupy the first place Even in a manufacturing country like England it stands third only, income-tax and excise taking the first two places and to those countries, which have a protective tariff, it looms large.

It has got a strange history India was pledged to the policy of free trade, and, therefore, would not levy any import or export duty. If any import duty it did levy, it was only to raise a revenue, and hence a countervailing duty on indigenous manufactures was levied But to finance war recourse was had to customs schedule and the chief changes, that were introduced, are as follows :—

The general import tariff has been raised to 15 per cent

Sugar	25 per cent
Iron and steel	10 „ „
Liquors	20 „ „
Cigars, etc.	75 „ „
Cotton piece-goods	11 „ „
Motors, etc	30 „ „

Exports—

Tea	Rs 1-8-0 per 100 lbs
Jute	5 per cent.
Rice	3 As per maund
Hides	15 per cent

After the recommendations of the Fiscal Commission, India is now to follow a policy of protection (discriminating). The Tariff Board has already been constituted and is collecting information as to which industries require protection and how much of it Needless it is, therefore, to put down here that import duties upon manufactured articles imported into India will be levied in such a way that they meet the requirements of the indigenous industries. Higher duties will have to be levied upon dumped goods The burden of those will fall upon consumers, rich and poor alike The alternative method of protection is giving subsidies to the indigenous industries but this proves very costly to the State, because it loses revenue and Government has to raise additional money for subsidies by direct taxes and taxation is already heavy The highest rate of super-tax in England is 6 shillings in a pound, while in India it is 6 annas in a rupee. It is also necessary that the masses should also bear their burden of taxation, all the more now that the purchasing power of their income and so also their taxable capacity has risen, because the prices have fallen, and are going to fall lower still.

The lines upon which the Customs Tariff was modified during the last few years were sound A few suggestions may be put down here

That export duties should be utilised to increase the revenue receipts. Most of the exports are either food materials or raw materials, the demand for which must be very inelastic and India enjoys a monopoly of some of these, *e g*, jute, oil-seeds, shellac Light export duties may be levied upon all exports and higher duties upon the selected articles. This will serve the following purposes :—

Those goods for which India enjoys a monopoly such as jute, certain oil seeds, shellac, the duties upon these will be borne by the foreigners

Other goods, which are used as food materials or raw materials, if therein exports fall, their prices will fall to the advantage of the Indian consumers and Indian manufacturers The possible adverse effect may be reflected in the fall of exchange and consequent rise in the price of foreign goods The probabilities are that it will not, because our demand is elastic and the foreigners' demand is inelastic, we can decline to purchase, if the price is high, while they cannot. Even if it does fall, it is to our advantage because we want protection for the Indian industries This will also protect the masses from the high rise of food materials. Most of the countries, Japan for one, are regulating the export of food materials in the interests of the country India should also do the same.

The import tariff is capable of great expansion Precious metals, precious stones, pearls—these bear no import duty These should bear even very high duties for the following reasons —

They are very valuable and therefore they will produce a good amount of revenue with the least cost

The burden will fall upon the richer classes.

Their higher price will discourage their use and the habit of hoarding and encourage investments

The duties upon motor cars, etc , and upon sugar, tobacco can be raised higher still The Tariff Board is already collecting data for the same

Excise.—It consists of duties levied upon the production of the various intoxicants and license fees for their sale And also from the duty levied upon cloth produced by machinery in India The revenue from this source has gone on increasing from about Rs 6 crores in 1902 to about Rs 18 crores in 1922 It is held that this is due to the efficient administration of the excise and the prosperity of a certain section of the community Drinking is a terrible habit It saps the productive energy of the consumer It reduces his income and thus the national dividend, out of which come the revenues of the State It brings untold miseries to the families of its wretched victims It is not, therefore, a sound policy to countenance it The Government could have raised money by allowing [illegible] it did well in prohibiting them It should [illegible] formidable evil. America is doing it The [illegible] port both of the Hindus as well as of the [illegible] There will be an immediate loss of about [illegible] will be repaid a thousandfold to it in the long run Let us study the statistics bearing upon it

"The average incidence of taxation per proof gallon of distillery spirit amounted in 1902 to Rs 4 6 8 The average consumption per 1,000 of the population in distillery areas varied from 14 gallons in the Punjab to 127 gallons in the Bombay Presidency (page 257, Imperial Gazetteer Vol IV)

	Excise revenue.
	Rs
Intoxicating liquors	[illegible],8[illegible],00,000
Opium and its preparations	1,10,00,000
Hemp drugs	[illegible],00,000
Miscellaneous	2,00,000
Total	[illegible]1,00[illegible]

Multiplying total revenue by 6 (taking the value of a gallon to be Rs 30, the rate works out as 1/6th of the value) we get the total value about Rs. 40 crores. This is the value of intoxicants produced in India Now the excise revenue has risen to Rs 20 crores A great deal of this increase is due to higher rates, yet we may safely double the value of intoxicants, and if we add the value of imported liquors, we shall find that about Rs 100 crores at the least are spent every year on harmful consumption If this amount of money be spent upon imported cloth, sugar, cycles, silk, etc , it will bring to the Government exchequer something like 10 to 20 crores of rupees; if it be invested in industries, it will be a source

of income to himself and a last resort in time of need, while at the same time it will swell the revenues of the Government in the following ways .—

(1) tax upon the increased profits of the companies;
(2) increased income-tax on unearned income;
(3) increment value tax and inheritance tax.

He will also become a useful member of the society.

Salt Tax.—The duty has varied from Rs. 1-4-0 per maund to Rs 2-8 0 according to the needs of the Government It (salt) is a necessary of life and its quantity required by a family does not change much with any change in its price It is very serviceable, for the Government can feel certain of an additional income by raising the rate But its burden falls heavily upon the poor, *e g.*, a poor man and a rich man use a seer of salt each per month The price is raised 5 As. to 10 As a seer, but they use the same seer The additional expenditure of 5 As. will mean a great deal to the poor but not much to the rich The incidence of this tax was about 3½ annas per head per annum or more exactly 14 annas per family of four members (Gross revenue being Rs 6·8 crores in 1920) A passage occurs in the 'India in 1922-23' which runs as follows . " Statistics showed that in the case of mill labourers the amount spent on salt represents only 2/5th of 1 per cent of their expenditure on food " This shows that the annual expenditure of a labourer with a wife and two children will be 500/2 × 14/16 or Rs 217 or Rs 18 per month The income per month will be a little higher than this

Stamps, registration and forest revenues require no comment. The forests should be utilised in such a way that, besides being productive of income, they should also supply materials to the growing indigenous industries Above I have suggested that excise duties should be abolished altogether. This will mean an *immediate* loss of about Rs 18 crores to the Government, while the opium revenue is also going to disappear from the budget in due course of time. Money will be required by the Government in increasing amounts. I propose, therefore, the following measures —

(1) That Customs Schedule should be changed and higher import and export duties be levied as laid down in a previous page

(2) Marriage duties be levied, the rate varying with the age of the married couple, in inverse proportion, higher for early marriages and lower for late marriages This should be tried as an experiment, at least, to see how far it succeeds Something of the kind is very badly needed in India, for the poverty and degradation of the masses is due to early marriage and big families.

(3) An inheritance tax may be introduced of a progressive nature. This is very necessary for the following reasons —

(*a*) Up to the present time, unearned increment value of the landed property as well as of the other capital have been left untouched by the Government and so the value of landed property as well as of certain stocks has risen very high.

(*b*) During the period of war, inequalities of wealth have increased, because in the first place the prices of food materials rose very high and consequentl [illegible]
Secondly f [illegible]
of these [illegible]
200 and 30[illegible]
held stocks [illegible]
turers, wh[illegible]
capital value of the shares This will be clear from the following figures :—

Prices in 1873=100.

Year.	Exported articles	Imported articles.
1914	100	140
1918	191	280

This will be clear from a simple illustration. If the rent of a piece of land or profits on a share stock rise from Rs 100 per annum to Rs. 200, the capital value of land and share will rise from Rs 1,000 to Rs. 2,000 This increase in wealth can also be gauged from the proceeds of the excess profits tax, super-tax and from the boom and increased flotation of companies in 1922 This wealth was only squeezed out of the income of the middle fixed salaried clas, and the labouring class. This unearned wealth has to be tapped by some means A capital levy is out of question Even in a rich country like England it was not tried An inheritance tax will be realised only, when the property descends to the inheritors at the death of a person It may be graduated according to the relationship of those who inherit the property to the testator. Professor Rignano has developed a new scheme which graduates a death duty according to time It virtually means the confiscation of property by the State in due course of time

An inheritance tax will take long to produce income for the Government It is necessary that an increment value tax should be levied upon the values both of land and investments, chargeable at the time of the transfer or the sale of the property. It will fall upon the values of securities when these rise A flat tax should be charged first, and if found necessary it may be graduated later on, but to make this effective, legislation will be necessary to make the sale and purchase of securities through entries in books

It is also very necessary that the land revenue should be placed on the same footing as the income tax, otherwise, as at present administered, it is very anomalous and inequitable I shall show this by concrete instances that it may be judged properly

1 Two plots of land of the same size and bearing the same rental Rs 100 per annum are put to different uses, one for agriculture and the other held for speculation The former is charged land revenue, say, 50 per cent and therefore its capitalised value is something like $50 \times 100/10 = 500$ and the capitalised value of the other will be $100 \times 100/10 = 1{,}000$ because it pays no tax If it be assessed to income-tax, in the first place, it will be charged no tax, because its income is below the taxable minimum Even if it does pay the tax, the tax is very small, 5 pies in the rupee, i e Rs 3 on Rs 100 then its capitalised value will be $97 \times 100/10 = 970$

2 In the temporarily-settled tracts land revenue works out at about 50 per cent of rent and so the landlord [illegible] per cent as [illegible] in a per- [illegible] lised value [illegible] regularly [illegible] method to [illegible] nd, one in Bengal, the other in the Punjab The difference will be marked after a number of years In the permanently settled area land revenue becomes regressive, tax being fixed, the rate falls as the rent increases

3 There is no minimum income exempt from land revenue A petty landlord, receiving Rs 100 from his small piece of land, pays Rs 50 to the Government, while a big landlord, receiving Rs 1 00 000, pays Rs 50 000, and a man who holds stocks returning an income of Rs 100, pays no tax It is very hard upon the petty landlord

Now if the Government applied a uniform equitable tax to land rate will be a little higher because it will be upon unearned income It would have the following effects —

1 It will bring two fold gain to landlords in the temporarily settled area First it will reduce the revenue that they pay to Government for the highest rate of super-tax is 6 As per rupee, i e, 36 per cent It will exempt petty landlords from payments altogether and bring great relief to them Secondly it will raise the values of their lands by the capitalised value of the income they have gained, and this will amount to a great deal

2 In the settled tracts it will be a certain portion of the landlords who will pay a higher tax than the revenue they were paying before They will suffer a loss in income and a loss in the value of land Other landlords will gain.

It will pay us to find out the rough gain and loss to the Government and the landlord.

Province	Incidence per acre of *cultivated* area.	Acres *cultivated*	Total *revenue.*	Total *rental.*
	Rs. A. P		Rs	Rs.
Bengal	0-12-7	24,000,000	1,80,00,000	7,20,00,000
Bihar	0-12-7	24,000,000	1,80,00,000	7,20,00,000
Assam	1-2-0	57,000,000	8,10,00,000	Double revenue.
Burma	2-0-0	15,000,000	3,00,00,000	"
United Provinces	2-0-0	34,000,000	6,80,00,000	"
Punjab	1-1-0	21,700,000	2,20,00,000	"
Ajmer	1-3-0	315,000	40,000	"
And so on.				
Total	...	...	22,60,00,000	45,20,00,000

Temporarily-settled land—

	Rs
Total Revenue is about	22,60,00,000
Total Rental " "	45,20,00 000
The approximate value	22,60,00,000 × 100/10
	or 2,26,00,00,000

Permanently-settled land—

	Rs.
Total Revenue	3,60,00,000
Total Rental	14,10,00,000
Land value	14,10—3,60 lakhs × 100/10
	or 1,08,00,00,000

(We have taken rental as 4 times of the land revenue for permanently-settled area on the strength of the statement that "Government derive rather less than *Rs 3 millions from a total rental estimated at Rs 12 millions, page 229, Indian* Year Book)

If land be assessed to income tax, then applying the average rate of 3 annas per rupee, i e, 1/5th of rent, the effect will be :—

Temporarily-settled—

	Rs
Total Rental being	45,20,00,000
Revenue will be	9 04,00,000
Land value will be	26,10,00,000
	i.e , 45,20—9,04 lakhs × 100/10

Permanently-settled—

	Rs.
Total Rental being	14,40,00,000
Revenue will be	2,88,00,000
Land value will be	1,15,20,00,000

Government will lose revenue—

	Rs.
in temporarily-settled	13,56,00,000
in permanently-settled	72,00,000

Land will gain in value—

	Rs.
in temporarily-settled	1,35,60,00,000
in permanently-settled	7,00,00,000

Government will lose approximately a revenue of Rs 14 crores, while the total gain in the value of land will be Rs 140 crores. The value of land will rise not because of any improvements made by landlords, but because of the action of the Government, and so this increment in land value should be appropriated by the Government, and this will be in accordance with the accepted canons of taxation and by the application of the increment value tax suggested above This will remove all the existing anomalies and make the tax a part of a sound equitable income-tax. It will also find favour with the landed classes, for it will reduce their burden, especially the burden of the small land-holders

Two more minor defects will have to be removed—

First—At present agricultural income is exempt from income-tax, while other industrial profits bear two taxes. One upon the undistributed profits of the company and the other upon the incomes of the shareholders This means that agricultural enterprise is treated favourably

Second—Improvements on land are exempted from land revenue, while capital in any other form bears income-tax upon its income, be it the training of a man or the improvements in a building This state of affairs owes its existence to the fact that the Government, out of consideration for the present heavy burden upon land wanted to exempt it from additional burden More inequalities will spring with every step towards amelioration, if the present system is allowed to persist. Remedy lies in reform on the above lines

Other kinds of land, *e g* fisheries forests game preserves waterfalls should be treated like land and bear a tax upon rental as well as a tax upon profits from industries connected with them

Now remain the idle or unproductive agents of production to be accounted for.

Land sites should be assessed to income tax

Hoarded capital *e g* ornaments jewellery and other valuables are difficult to approach directly We can touch them by means of higher import duties upon precious stones and precious metals and secondly by means of inheritance tax But here even there is danger of evasion, for before death the movable property may be transferred in the form of gifts, presents, etc For these practical difficulties it may be left for the present unassessed to inheritance tax (excepting the immovable property) With the spread of education and increase in banking facilities, it will come out of its own accord because of the inducement of interest, and then it will be assessed to the different taxes

Something is also necessary for the idle labour beggars, swindlers and the idle rich persons For the first two, prohibition and not taxation is necessary For the third, the unearned income tax is sufficient but if practicable a direct tax may be levied upon idleness

An excise duty upon betel leaf production may be levied It will produce a good amount of money

Professor C N Vakil states in his book entitled "Financial Administration of Modern India" that the sterling securities of the Government of India, issued by the Secretary of State for India, are exempted from income-tax and that the railway stocks are assessed to income tax upon their net profits (profits—guaranteed interest), and that foreign shipping companies, carrying Indian trade, do not pay any tax.

The Indian Government should not lose money by giving a preferential treatment to the foreign capital. It is given worse treatment in other countries and finds a better market in India, that it comes to India and so it should be treated like our own capital We cannot tax shipping-companies.

Paper currency profits may be utilised for revenue purposes in two ways First the interest from about Rs 60 crores worth of securities, now lying in the paper currency reserve, may be credited to revenue, but there are other considerations also. We do not know how much these securities have depreciated in value. This loss will have to be made good out of the revenues Secondly, we do not know what will be the limit of the invested portion of the paper currency reserve either Rs 14 crores as before war or something else But there is a great demand for additional money during a certain season of the year, and every authority is agreed that this should be met by the Government issuing additional paper money against the securities, stocks, bills, etc , of the merchants. The profits from this portion of the paper currency reserve can be safely used as a part of the revenue.

Now to sum up the main proposals are as follows :—

1 Income tax should be improved upon the following lines :—

(*a*) Distinction should be made between earned and unearned income, because the former is the first source of saving and is due to natural gifts, etc , besides capital invested in labour

(*b*) For lower incomes, up to a certain point, abatements, *i e* , deduction of the taxable minimum, be allowed There is no need of giving allowances for marriage, children, and relations or if these be allowed they should be very slight, so that they may not encourage early marriages.

(*c*) Incomes on the border-line between two different rates should be charged special rates, so that the increased incomes be not absorbed by the higher tax rate, *e g* , incomes between Rs 5,000 and Rs 5,050 should be charged 5.2 pies per rupee.

(*d*) Idle agents of production should also be taxed such as land-sites, hoarded up capital The latter to be touched by means of import duties on gold, etc , and inheritance tax Begging like stealing should be penalised.

(*e*) Land tax should be reformed and assimilated with the income-tax It will be welcome to landlords, because it will lighten their burden, and will make the tax more equitable Government will lose roughly Rs 14 crores but the land value will increase by Rs 140 crores This should be appropriated according to the increment value tax This investment will bring in the same amount of revenue

(*f*) Agricultural profits should be taxed just like other profits.

(*g*) Improvement on land should be taxed like other capital

2. An inheritance tax, graduated according to relationship should be introduced, for now the war-made wealth of India will make it productive

3 An increment value tax be introduced, chargeable at the time of transfer or sale of landed property as well as investments

4. An entertainment tax may be introduced

5 Marriage duties, graduated according to the age of the couple or their income should be introduced, the object being raising of revenue as well as discouraging early marriages

6 Income from the invested portion of the paper currency reserve (permanent as well as periodical) should be used as a part of revenue.

7 *Customs*—The scale of import duties should be raised specially for motor cars, luxuries, precious stones and precious metals and also upon such manufactures as may be recommended by the Tariff Board.

Export duties should be levied upon a sliding scale for food materials Higher duties to be levied upon goods for which India enjoys a monopoly and for which foreign-demand is inelastic, *e g* , jute, hides, shellac, oil-seeds

8 *Excise.*—Drinking and using other drugs should be penalised like gambling and opium smoking and duties abolished Excise upon cotton cloth should also be removed or if it is retained, similar duties should be levied upon industries which produce luxuries, also upon betel and tobacco

9 *Salt*—The tax should be as at present, and reserved for increment in cases of emergency.

A word for local Finance.

Octroi should be abolished altogether from all the municipalities for these interfere with the freedom of trade They are different from customs duties just as foreign is different from internal trade. They are not used to protect the city industries

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Professor Hasan gave oral evidence as follows :—

The President Q—You are the Professor of Economics, Islamia College, Peshawar?

A.—Yes, Sir

Q.—May I know who was your Professor?

A.—Professors H. S Jevons and C. D Thompson

Q.—You have been good enough to send us two papers, first of all you sent a new scheme of taxation for the whole empire, and then you have sent in the answers to our questionnaire I will first take your answers to the questionnaire.

Sir Percy Thompson Q—In answer to question No 14, surely if railways supply better accommodation they can charge higher rates?

A.—If the rates are such that they exceed the cost, the difference may be considered as a tax

Q—You do not object to charging more to first class passengers or third class passengers, but what you mean is that you must not make the first class pay for the third or the third class pay for the first?

A—I do not know the actual expenses of the different classes, but the possibility is that the different rates may be such that there may be loss from one class and gain from the other, and if this is balanced, there will be no net gain. If there be any gain that is a kind of tax It may be either from the first or third classes

The President Q—In answer to question No 29 you say that a poll tax or capitation tax is worse than a salt tax or import duties, because it is direct and must create ill will Would you apply this to the chowkidari or profession taxes levied by local bodies, will they create ill-will?

A—I do not know what this chowkidari tax is I have no experience of it

Q—Is there no such tax in the North West Frontier Province?

A—I don't think so

Q—Chowkidari tax is one which is levied from the land holders to pay for the cost of village watchmen It is not a flat rate, it is an apportioned tax The Deputy Commissioner apportions it You have a fixed sum which is required to pay the chowkidar and that sum is levied on the village in proportion to the circumstances of the landholders

A—If it is like the present income-tax, it is not objectionable, but if it is a tax which is levied on the people without consideration of their incomes, *i.e.*, if it is a flat rate, I object

Q—A good many of these personal taxes are not at flat rates, *e g*, the French tax on persons If it is not a flat rate it cannot be called a poll tax, it is a tax on the kind of incomes or wealth and not a kind of capitation tax

A.—What I object to is a kind of poll-tax at flat rates.

Q.—Have you got hearth tax in your part of the country, as they have in the Punjab?

A.—I do not know

Sir Percy Thompson *Q*.—With regard to tax on unearned incomes everybody will agree that it is desirable to tax unearned income. Everybody agrees in theory, but a doubt is always expressed whether in a country like India it is worth while?

A.—Now the conditions are such that there are different classes who are making money from investments

Q.—But the unearned income of this country is chiefly from land, is it not?

A.—I should certainly call it unearned income.

Q.—As at present the agricultural income is excluded from the operation of the income-tax, is it worth while having a differential rate on unearned income?

A.—According to my scheme, I should like to differentiate Agricultural incomes include four different kinds, incomes from lands, that is, rent; profits from agricultural enterprise; interest on money that is invested in the land, and agricultural industries and wages of labourers which may sometimes include skilled labour also All these are called agricultural incomes I should like to differentiate these as separate incomes and income-tax may be levied upon them For example, take income from labour and income from capital There should be some differentiation between these

Q.—The question is whether under the present system it is worth while to tax unearned income in India I agree that there is a case for it, but if agricultural incomes are excluded, do you think it is worth while to charge unearned incomes at a different rate?

A.—Even then there are incomes from investments in industries and these may be charged a little higher than now

Q.—The amount is not much?

A.—We are handicapped by want of figures and statistics We do not know how much capital is there, but I think the Government is in a position to find out these figures, and they can find out whether it is worth while

Q.—Could you give us some idea of the amount of capital yielding dividends?

A.—I think there are some mill-owners and others earning income from investment and therefore their incomes are different from the incomes of petty teachers, etc

Q.—You say that information is in the possession of the Government. They do not know much about the shares and debentures. How could Government get this information?

A.—Well, they are in a better position than myself.

Q.—I see you do not favour allowances for families, you think that the population is increasing too fast?

A.—The population is increasing and there is a low standard of living and therefore I should think either social reform should be undertaken to prevent those early marriages or if taxation can do something, then direct taxation might be undertaken to discourage early marriages.

Q.—You want to abolish land revenue altogether and substitute income-tax; but you don't want to super-impose income-tax on land revenue?

A.—This will mean taxing the landlords too highly. At the present time I find that the best thing is to overhaul the whole system of land revenue which is very defective. There are agricultural incomes which are exempt at the present time, they may be assessed to income tax

Q.—In reply to question No. 40, you say "if the exempted minimum be deducted from the lower income and tax levied upon the difference, as is done in the United Kingdom". There is not much practical difference between the English system and the Indian system. You charge the whole income above the minimum at a very low rate.

A.—It is only in principle that this defect exists and so it may be removed For instance a man who is earning Rs 2,020 per annum is charged an income-tax and he has to pay something like 60 or 70. He is worse off than a man who is earning Rs. 2,000 per annum.

Q—Are you not aware of section 17 of the Income Tax Act

A—I am sorry I was not aware of it.

Q—It has already been done You can have your graduation in two ways You can either have a certain slice of income deducted and a standard rate charged on the balance or you can do it by having different rates for different incomes In India you do it by having different rates. In England we have one standard rate and get the difference by exempting a slice of the income. I do not know why you should have both.

A.—I mean to say that the minimum should be deducted at first from the smaller incomes. It is better that these lower assessees should have some relief

Q—They have some relief, for they are charged at the lower rate?

A.—That will do if the rates are lowered

Q—What you suggest is that the rates are too high?

A—I do not say that The income-tax is graduated On principle it is a very good one, but then these smaller incomes may be deducted from the first and then these lower rates may be levied on differences only

Q.—Then you want to reduce the taxation on lower incomes?

A.—I have suggested that in cases of this sort you can lower the exemption and may bring in other incomes under taxation

Q—The exemption limit has been as low as 500 and the tax was felt difficult to collect?

A—I don't know that

Dr Hyder *Q*—You advocate a tax on marriages?

A—Yes

Q—Do you think that it will be productive?

A—I should think that it will be productive unless the marriages are stopped.

Q.—Do you think it will be politically expedient? Don't you think that people would say that Government is trying to invade even their social institutions? Don't you know that such a thing has been said in the Punjab agitation?

A.—I think so far as economics is concerned, it will be productive, but I do not know what the political effects would be

Q—You advocate it purely from the economic point of view?

A—Yes I advocate it only from the economic point of view and as a form of revenue to the State The enlightened people, I think, will side with the Government They are already trying to gain their object by trying to raise the age limit of marriage and so there may not be much opposition.

Q—Then you advocate it only partly from the social and partly from the economic point of view?

A.—Yes

The President. *Q*—You wish that the use of *ganja* and *charas* should be prohibited, do you include in that opium also?

A.—Yes, opium also. I think opium smoking is already prohibited.

Q.—Not opium eating?

A.—I have just put down all these things to show which of these ought to come under prohibited intoxicants

Q.—You want to prohibit tobacco also?

A.—No, I do not think tobacco is so very bad. Anyhow a doctor would be better able to suggest which thing will be more harmful. I do not think tobacco is very harmful

Q.—Do you think, then, that there are two opinions about alcohol? Do you think that doctors agree about alcohol?

A.—I think so. With regard to alcohol all the doctors condemn it So far as economic effects are concerned, we find that the drinking habit is very harmful that it makes the rich man poor, and therefore I suggest that in the interests of society it must be prohibited and then I think in the end the productive capacity of the people will be increased.

Q.—Have you read the report of Lord D'Abernon's Committee? That was a committee composed of several medical experts and prominent social reformers of the day Their conclusions were different

A.—Well, in a country like England and other places, it may be useful. *People in the temperate zone may not feel the harm of this drinking, but for* people in the tropics it is very harmful I have not seen the report you refer to

Q.—You say that drinking is a cause of widespread misery and so on Have you had any personal opinion about it? Have you seen men actually drunk?

A.—I have not seen many of them, but I have seen some at least.

Q.—Have you seen hundreds or thousands of people drunk?

A.—I cannot say exactly the number I have seen some people and they have brought misery on themselves

Q.—I want to know whether it is injurious to the extent you believe it to be?

A.—I find at least in the Muhammadan society it is religiously prohibited. Even there, there are people who are addicted to this habit and it is perhaps growing

Q.—But you have not seen men actually drinking?

A.—I have seen but few, but I am afraid even with the experience of few, it is growing.

Q.—Do you think it is right to deprive a man of what he regards as an innocent pleasure?

A.—Well, sometimes it may be

Q.—Do you think it is practicable?

A.—As far as its practicability is concerned, I cannot say for certain

Q.—I think you have got the experience of America before you? Have you read the statistics published by the Prohibition Commissioner regarding the results of prohibition in America? The Commissioner reported that 40 million gallons of illicit liquor were drunk in the year 1921?

A.—I think illicit drinking must necessarily follow prohibition. People will have recourse to some kind of drinking or the other if they are not allowed to purchase these wines and in that case there must be smuggling at least for about a generation.

Q.—Do you think prohibition will reduce drunkenness?

A.—I think it will ultimately.

Q.—But we have here figures, for the year 1921 in Chicago convictions for drunkenness were 51,300 which represent 18 per thousand of the population. What do you say to this?

A—This revenue is only collected to discourage intoxication; if prohibition cannot discourage it how can taxation discourage it

Sir Percy Thompson—But it has done so in England

The President. Q—Are you aware of the policy hitherto followed in India? It is that the rate of taxation should be as high as it can be pushed without giving rise to uncontrollable illicit distillation That is the sole limit upon the increased taxation It comes to this You raise the price of these liquors by means of taxation so that those persons who cannot afford to purchase would go without it But we find even prohibition cannot check this

A—But prohibition may succeed even though it may not succeed at once, after 15 or 20 years. No doubt it may be very hard on the drunkards, but in the interests of the society it will be right to insist on prohibition

Q—Do you think that because you believe it is an evil, it will be right to prohibit the whole community from drinking liquors to which they are addicted?

A.—As a person who is interested in the welfare of the society at large, I can suggest that.

Q—Could you carry that into force with a population who are addicted to drink, without causing a revolution?

A.—I cannot say what political and social results would follow

Q—Have you considered what it will cost the country, I mean, the loss of revenue to the country?

A—I have not considered this more than a theorist can do So far as economic results go and so far as a theorist can give something with the statistics at his disposal, I have given it in my paper

Q—In your memorandum you assume that the expenditure on drink is six times the duty Can you tell us how you arrived at this?

A—It is only a rough thing I worked out that the duty and the license fees are 18 per cent of the cost pric

Q—Where did you get this 18 per cent? Have you any idea what a proof gallon of liquor costs?

A—I have no idea of the cost In some books I have read it is written that the duty works at the rate of so and so

Q—I put it to you the cost price varies from Re 0-12-0 to Rs 1-4-0 per gallon against your figure of Rs 24?

A—I have just approximately worked out the value of these things I have left out some intoxicants altogether I wanted to show how much wealth is spent.

Q—The amount of wealth spent is duty *plus* the cost price *plus* vendor's profit I put it to you the cost price is something like one-sixth instead of six times the duty?

Sir Percy Thompson Q—I put it to you that you are out by 2 500 per cent, do you still call it approximate?

A—Take the case of *ganja*, *charas*, etc

The President Q—The price is a mere trifle compared with the duty The most expensive of all is opium In opium the contract rate is Rs. 13 and the duty is 80 rupees You say 100 crores and I say 20 crores There is a good deal of difference between 20 and 100 crores

A—I admit the mistakes We are handicapped by the want of actual figures and reliable statistics, so we only show roughly how much wealth is lost.

Q.—You again say that the Indian Government should penalise drinking. What do you mean by penalising?

A—Just making it effective by prohibition.

Q.—You consider it ought to be progressive?

A.—Yes

Q—Do you consider it to be in the nature of a charge on rent?

A.—Yes

Q.—But rent is not progressive.

A—But whatever be the rent it (tax) is levied at the same rate Rent is only a kind of income from land; and the rate may vary with the amount of income.

Q—So that is your first defect, that it does not vary with the ability to pay. What is your next defect?

A.—It is only the agricultural and productive land that is taxed; land used for building purposes is not taxed Unproductive land does not pay the tax.

Q—It pays land revenue whether it is cultivated or not. As long as you have a title to the land, you must pay the revenue.

A.—But if, for instance, at any time the land is not used or cultivated?

Q—All the same you pay the land revenue

A—But at the time of the settlement, if it can be shown that the land is not producing it will not pay for the next settlement

Q—If you have a title to the land you must pay land revenue Normally being in the nature of a rent charge it is charged irrespective of the fact whether the land is cultivated or not. What is your next defect?

A—The burden on the land holders in the temporarily-settled tracts is heavier than the burden on those in the permanently settled tracts who are much better off. That is another aspect of ability to pay Also the land improvements—agricultural improvements are exempt from revenue for a certain time This means that when capital is invested in business and the incomes increase, the additional incomes are taxed, whereas if capital is invested in lands and the income is thereby increased, the additional income is exempt from revenue for some time at least

Q—That is in favour of the agriculturist.

A—But why should there be such an exemption? It is unnecessary.

Q—So the return from the capital on agriculture is not taxed in the same way as the return from the capital invested in other industries Then what is your next defect?

A—In some cases the agricultural incomes are exempted It is only the rent from land that is taxed. There are big cultivators who should be taxed Then the interest on the capital that is invested in agricultural industry is also a kind of agricultural income. This and profits from agricultural industry should also be taxed, just like other incomes.

Sir Percy Thompson Q—You took it as an objection that land revenue was not paid if the land was not cultivated and the President told you that it would be taxed Would you charge income-tax when it is not cultivated?

A—How can we do that unless there is income?

Q—Then income-tax is subject to that defect which the land revenue avoids? I thought you wanted to charge the land whether it is cultivated or not and it has been pointed out that under the land revenue system it is charged and now in the income-tax system it would not be charged and in your view that will be a defect?

A—As regards incomes, they may take different forms. Incomes may be in terms of money, in terms of utility returns or they may be in the form of satisfaction So far as income tax is concerned, it is only the income or the probable

income or the translation of the utility that the person is receiving that is possible to tax. For instance a man with a big palace. If the palace is let out he may get a huge amount of income Instead of that he may keep it for himself. Then the return will be in the form of satisfaction for himself. If you are going to tax the building, it may take different forms. It may be on the actual money income or its equivalent in terms of satisfaction and so on. I have not suggested any particular thing for that taxation.

The President Q—At page 313 of your notes you say "Government should determine what constitutes an undivided family" Have you any definition or means of determining an undivided family?

A—The Government may just decide it

Sir Percy Thompson Q—May I take your policy in regard to customs to be this: that where the duty is on an article which is not manufactured in India, you would raise it just to the point at which you get the maximum revenue and after which it will cease to increase, i e, up to the point where it is most profitable.

A—Yes, up to that point

Q—What is your test with regard to the articles that you want to protect?

A—I would leave it to the Tariff Board

Q—Upon what principle should they proceed? Should they raise the duty up to the point sufficient to exclude the foreign article?

A—Yes; that will be a good thing I would raise it just high enough to protect the home producer Otherwise it will be at the expense of the consumers

The President Q—At page 315 of your notes you say "The duties upon motor cars, etc, and upon sugar, tobacco can be raised higher still The Tariff Board is already collecting data for the same" Have you any authority for that statement?

A—They are collecting data for the industries which they want to protect—whether to protect them or not That is what I meant

Sir Percy Thompson Q—Now we come to taxes on exports You want to extend the tax not only to articles for which India has a monopoly of production but also to the general products such as wheat, etc Now would not this mean that the volume of exports which leaves India is going to be reduced?

A—Yes, it will be reduced

Q—If this is the case, must not the exports from India exceed the imports into India by an amount equal to the foreign debt?

A—Yes.

Q—If your export tax reduces to any substantial extent the volume of your export trade, the rate of exchange will go against you You won't balance.

A—It may not, because it depends upon the nature of the demand for our goods

Q—Let us take cotton for example Suppose you put a tax on your cotton, heavy enough to influence price, won't it reduce the volume of export?

A.—Yes; exports will fall

Q—Does that apply to any other goods on which you are going to put this export duty? Wheat, for example

A—Yes

Q—You do not get so much money for it and in that case your exports will not balance your imports

A.—But our imports also might fall

Q—Is it your policy to make India self-contained.

A—We protect our own industries and so it means that the goods that we just now import from foreign countries—at least a certain amount of those goods—will be produced in this country. Our imports may fall and our exports also will fall. There is no harm.

Q—You will make the export duty just sufficient to reduce the total volume of export just to the total volume of imports?

A—As regards export duties, take the case of a monopoly article. Even if the tax is high, our volume of trade will not fall. There is also another thing. As regards the other things that are exported at the present time, the demand for them is highly inelastic because they are food materials and sometimes they may not be available in other countries. Therefore the foreigners will have these things at any cost Their demand will not fall even if you charge a higher duty.

Q—But don't you think there is a world price for things like wheat? And if your price becomes higher by reason of the export duty, don't you think that it will curtail your exports.

A—But I do not propose a very high rate

Q—What sort of duty have you in mind for wheat or cotton for example?

A—I would vary the export duty according to the world prices I would have a sliding scale. If in India the price of wheat is rising, a higher duty will be levied and if it is falling a lower duty will be levied

Q—Surely you would cause great confusion if you go on altering the rates according to prices

A—They would be laid down beforehand

Q Then, suppose you laid down a rate and the price of wheat falls Will not there be any difficulty?

A—If our interests are to be served, some difficulties should also be overcome.

Q—But would they be served if the producer of wheat was unable to compete in the world market?

A—But it is not only the producers who are to be taken into consideration; there are also the consumers

Dr Hyder. Q—Do you know what happened to the sliding scale which was in vogue in England in 1816-47?

A—But they were importing wheat and not exporting The conditions were different

The President Q—You say "Most of the countries, Japan for one, are regulating the export of food materials in the interests of the country" Can you give us the authority for that?

A—I have read it from some book. I do not remember it now.

Q—Even as regards articles in which we have a monopoly, do you remember *what happened to the export duty on saltpetre when it was imposed under the* impression that India had a monopoly in that article?

A—No It all depends upon the rates also

Q—You suggest that we have a monopoly of oil-seeds and shellac. Is it a fact that we have a monopoly in them?

A—As regards oil seeds, they are mostly produced in India Of course other countries also produce them; but they are very few. That amounts to a kind of monopoly.

Q—And shellac.

A—The same thing with regard to shellac also Even when some businesses are running on a [illegible] competing businesses, the big compan[illegible] ough they have not got actual monopo[illegible] do anything So also if some quantity [illegible] other countries, if a large quantity is [illegible] of monopoly.

Q—We now come to the import tariff You say that precious metals, precious stones, pearls, should bear very high duties. Do you know the reason why these are not taxed?

A—I do not know.

Q—Is it not impossible to detect their entry? Is it not the reason?

A—I did not take into consideration the impracticability. I was only thinking that it was a suitable subject for taxation.

Q—With regard to death duties, you quote Prof Rignano. Are you a disciple of Prof Rignano?

A—No

Q—You quote him

A—We sometimes become pupils by reading certain publications

Q—Would you advocate his system?

A—No, I would not.

Q—You say that 'an increment value tax should be levied upon the values both of land and investments'. How are you going to levy it on investments?

A—It will be levied at the time of transfer or sale of the share.

Q—Suppose a man sells shares Would you make him declare the price at which he bought them?

A—Yes

Q—How are you going to do it? Are you going to keep a record of every transaction?

A—Every time shares are sold the price would have risen and some kind of tax may be levied A record of every sale may be kept

Q—How are you going to do that? Are you going to make the Stock-Exchange a Government institution?

A—The Collector could be present at the Stock Exchange

Q—Have you got experience of the working of the Stock Exchange?

A—I have not got much practical experience

Q—Do you show any consideration for the loss that a man sustains in the transactions?

A—We only share in the gain and not in the loss

Sir Percy Thompson—What is your datum line? Suppose I sell certain shares at Rs 100 each How are you going to determine if I pay tax? On what basis do you charge?

A—If you had bought them at Rs 80 then we can charge

Q—If I bought them 50 years ago?

A—Yes

Q—Suppose the investment was made 500 years ago and these shares passed from father to son You will have to go back 500 years to find out at what rates these shares were bought

A—If there is no record, then you will not charge

Q—Surely it is unfair to make your tax depend on whether you produce a record or not

A—In some cases the prices generally rise and there is no danger of falling and there is no fluctuating price In such cases it can be done

Q—You must have some provision for losses Supposing there is a war, the first effect is that all Government securities depreciate Is that the proper time for the Government to repay the people for their losses?

A—That is an argument against it I admit. It is difficult to tax in the case of shares and stocks

The President Q—Suppose I am a holder of 50 shares which changed hands 50 times and suppose they pay on a rise of 1 per cent each time You hold shares of the same value and they have not changed hands There will then be a large increment in your case because there is no transaction in your shares. Are you going to pay on the full 50 per cent. while I am going to pay on the 1 per cent. which I got?

A—In your case it will be on 1 per cent., and in the other case it will be ex· 50 per cent.

Q.—In page 317 of your notes, you refer to an 'uniform equitable tax on land' Is it uniform income-tax?

A.—Yes.

Q—At page 319 you say that 'industrial profits bear two-taxes; one upon the undistributed profits of the company and the other upon the incomes of the shareholders This means that agricultural enterprise is treated favourably.' You do not propose to abolish the super-tax on companies?

A—I did not take that into account

Q—You propose to levy income-tax on land sites Suppose the land is held for a long series of years and it does not yield any income?

A.—It is only the probable income which could be got from that land that would be taxed

Q—You assess the potential income?

A—Yes The income which we can get from that land if it is let.

Q—You recommend excise duty both on tobacco and on betel?

A.—Yes

Q—You don't think that it will be a very unpopular tax?

A—It may be But it is a kind of luxury and we can tax it.

Q—You regard betel as a luxury?

A.—Yes

Q—A lot of people told us that tobacco is one of the necessaries of life to the cultivator.

A.—It is a harmful necessity

Q—You quote Professor Vakil Is the statement correct?

A—He has made that statement I did not test it

Q—You also say that shipping companies do not pay tax?

A—Yes They may be paying tax to the other countries but not to the Government of India

Sir Percy Thompson *Q*—They pay tax also to the Government of India.

A—I do not know

The President *Q*—You would abolish octroi altogether?

A.—Yes

Q—How would you replace that?

A—By a direct tax

Q—What sort of direct tax?

A.—Additional tax may be assessed on income or a property tax may be levied. Though it will be a little unpopular it is better than the octroi

Q—You would levy also excise on sweets, perfumery, aerated waters and cartridges Where would you levy it in the case of sweets for example?

A—Where they are produced.

Q—At every shop which makes *jilebi*?

A—If it is produced on a large scale it can be taxed. My point is that you can safely levy the excise duties on articles produced in India which are free from competition from other countries. I have mentioned only a few of these but there will be a number of them, and they may be taxed.

Sir Percy Thompson *Q*—Did you consider the population in India and the number of excise officers you would require?

A—In the first place I was in favour of the abolition of all excise duties. But if you are going to have excise duties, these are the steps that I suggest.

The President—What about the increment value tax?

A—I do not know whether it can be worked. But I think the present land revenue system is very defective and it is better if it can be overhauled.

4th February 1925.

Delhi.

PRESENT.

Sir CHARLES TODHUNTER, K C S I, I C S., President

Sir BIJAY CHAND MAHTAB, G C I E, K.C S I, I O M, Maharajadhiraja Bahadur of Burdwan

Sir PERCY THOMPSON, K B E, C B

Dr. L. K. HYDER, M L A.

Professor E. H. SOLOMON, M.A., Chairman of the Department of Economics, Muslim University, Aligarh, was examined.

Written memorandum of Professor Solomon.

Q. 1.—The statistics in question while not quite comprehensive and in portions untrustworthy, are, in the hands of an intelligent statistician and economist versed in Indian conditions, the only means of arriving at a somewhat rough estimate of the annual income of the country

Q. 2—I am inclined to take the estimates of Messrs Khambata and Findlay Shirras as an useful starting point for arriving at a more accurate estimate of the real annual income of India In so far as he expressly omits to reckon in the value of such services as are not directly included in the values of the commodities computed, Mr Khambata's figures are admittedly an underestimate One has to reckon in earnings of workers in transport and trade of various kinds as well as certain professions before one can get a comprehensive estimate of India's annual income

Mr Findlay Shirras' estimate on the other hand, while more comprehensive, is restricted to British India and unfortunately does not, unlike Mr Khambata's, give one a detailed description of the processes adopted to arrive at it Assuming, however, in view of Mr Shirras' reputation as statistician and economist, that they are the best available, his estimate is still subject to criticism on the grounds of double counting and exaggeration In computing separately values of straw [illegible] milk which they produce, there is [illegible] entirely omits milk from his estima[illegible] together with other animal *products* [illegible] *ep of Indian cattle There* is no doubt that in some parts of India cattle are kept at a loss (notably Bengal, the Central Provinces and some parts of the United Provinces and Madras) But while this is not true of provinces like the Punjab Western United Provinces and parts of the Deccan, it is quite clear that Mr Shirras' estimate of milk is an overestimate, certainly of the value of milk [he takes an average of something less than 4 seers to be worth a rupee whereas milk can usually be obtained in country places (except near great towns) at 5 seers and sometimes even cheaper] and probably also of the quantity Deducting then 25 per cent from his value of milk for such overestimate, and subtracting the value of fodder and straw consumed, we got a net figure under milk of something like 00 crores only.

I think, further Mr Shirras' figures for the earnings from industry and from trade are exaggerated, by about 20 per cent and 15 per cent respectively. In the atmosphere of Bombay one is apt to forget sometimes the very low range of money incomes earned by the average employee in trade and industry in most

parts of India. Making allowance for these deductions therefore, and a further allowance of 10 per cent for probable error from the total of income derived from various occupations (see page 144 of "The Science of Public Finance") you get a figure of Rs. 795 crores. Adding to this a figure of Rs. 1,760 for agricultural income, we have a net total income of about Rs. 2,550 for British India, or about Rs. 103 per head in 1921-22

Q. 3.—Yes.

Q. 4.—No.

Q. 5—I think such a census is desirable provided the cost is not too great relative to India's rather limited resources.

Q. 6—The information suggested would be useful, but I would first await experience of the cost of its collection and the degree of its comprehensiveness in Bombay, before passing similar legislation for all-India

Q. 7.—Estimates of India's annual income are not altogether superfluous. They enable one, particularly with reference to agricultural production to arrive at a rough idea of the *per capita* income of 70 per cent of India's population, and thus, after a detailed enquiry into the ultimate incidence of each tax, to estimate the burden of taxation on agriculture

Q. 8—We need many more such enquiries before being able to estimate the incidence of taxation on various classes.

Q. 12—No

Q 13—In general, Government undertakings should endeavour to secure a bare return on capital invested in them. It may be advisable sometimes to charge prices giving a higher return when this is shown to be the method of raising revenue urgently required for other purposes, which would involve a less sacrifice than any other In exceptional cases like opium or alcoholic liquors, drugs or tobacco, I would have no objection to Government's trying to gain monopoly profits. It might appear that where either of the last two principles *i e.*, of a commercial return, or monopoly profits, were adopted, there would be an element of tax in the price charged by Government, but I don't think this would be conclusively proved, unless it could be shown at the same time that the price charged is higher than is being or would be charged at the same time for a similar commodity or service by a private undertaking.

Q 14—There is no element of taxation in the revenue from the heads enumerated with the possible exception of the item coinage and exchange In so far as profits on exchange result in a surplus of revenue over expenditure they represent an amount which, by more careful budgetting, might have been left with the people by a remission of taxation.

Q 15—I would charge a water rate for agriculture just sufficient to cover the cost of supplying the service including interest on capital. This would prevent any restriction in the demand for water from those lands just on the margin of cultivation. Lands, the value of whose produce is greatly enhanced by irrigation facilities, could be made to contribute in addition by having to pay a higher revenue.

Q. 16—I think the State is entitled to at least half of the increase in value of land due to its irrigation projects I would prefer to have this share taken in a lump sum Where this would be inconvenient to the land-holder, he might be given a period of five years within which to meet the amount plus interest, the Government having the right to take the amount earlier in case of sale of the holding or part thereof.

Q. 21.—I think it immaterial whether we regard indirect taxation as voluntary or involuntary The point is whether such taxation involves a social burden. When levied on most articles, particularly necessaries or mass goods, it does so, and should be estimated in considering the total burden on the tax payer When however, it is levied on articles, the social utility of which is less than their utility to individuals, an indirect tax is not a burden only so long as it is just sufficient to equalize the private with the social utility from the consumption of the article, and to that extent, it should not be included in an estimate of total burden

Q. 22.—Thus, I would not think a heavy tax on betting particularly on the race courses, or a fairly heavy tax on alcoholic liquors and drugs, or a small tax on tobacco, should be regarded as burdens.

Q 23—Yes, subject to the above

Q. 24.—I think an entertainment tax, and particularly one on railway tickets, destructive of social utility and hence objectionable. I would certainly include them as part of the burden of taxation in the country.

Q 25.—Yes, where a large community exists, like the Muhammadans who for religious reasons, consume very little liquor, I would certainly take account of this fact in estimating the burden involved by the excise duties on liquor I should regard them as not affecting the Muhammadan part of the Indian population except where evidence is forthcoming to show that notwithstanding religious precepts, vast numbers of the community habitually and openly consume liquor.

Q 26—The principle that would guide me mainly is that of getting my taxes with the infliction of the least total disutility on the people as a whole In calculating disutility, regard must be paid to the total loss suffered from the deprivation of a given sum by people with different incomes If for instance the requirements of the State were small, and could be easily supplied by taxing only men with incomes over Rs 500 per mensem, I should not wish to tax at all those with such small incomes as 100.

Having regard however to the impracticability of such an ideal, I should try, after exempting from taxation (as far as possible) those not earning more than sufficient to preserve a bare existence, to get the necessary revenue of the State by taking only so much from every individual as would leave the marginal utility of the last rupee of income to every body equal

Q. 27—I have already answered this in the previous answer

Q 28—It is not a necessary accompaniment of representation, as the representation of the views in a State of a poor but honest and able man is more beneficial to society than those of a rich rogue or fool.

Qs 33 to 36—*Income-tax*—I would introduce the following scheme of graduation in place of the existing one —

	From		To	Rate
1. Incomes below	Rs 1,200 per annum			Nil
	Rs		Rs	
2. " "	1,200	to	2,100	3 pies in the rupee
3 " "	2,100	"	3,600	4 " "
4 " "	3,600	"	6,000	5 " "
5 " "	6,000	"	10,800	6 " "
6. " "	10,800	"	18,000	9 " "
7. " "	18,000	"	24,000	12 " "
8. " "	24,000	"	36,000	18 " "
9. " "	36,000	"	60,000 or over	24 " "

These rates would be applicable to earned incomes only, while unearned incomes should be assessible to a sur tax of 25 per cent of the rate applicable to the grade to which it belongs

All incomes above the exemption limit (not excluding agricultural) should be subject to the income tax, the income of the working farmer having to pay a lower rate than that of the landlord or money lender which would come under the category unearned

I would allow rebate for savings in the form of insurance premia, provident fund contributions and the like up to the present limit of 1/6 of the total income, but unlike the English practice, I would give no relief for a wife or children as in India almost every body is married, and the prevalent customs would make it difficult to test a person s claim for relief on these grounds, apart from the fact that relief granted for children may be an additional incentive to the *exercise of the already too strong procreative instincts of the people*

Q 37—I think the super tax may be left as it is, but, while companies should be taxable at the source, at the maximum rates of income tax and the existing super-tax, the income tax administration should help and allow shareholders whose total incomes really entitle them to a lower rate of assessment to get a refund of the excess payment

Q. 38—Answered above.

Q. 39—I am inclined to think the application of my scheme of graduation to agricultural incomes, would yield from Rs. 10 to Rs 12 crores extra by

parts of India. Making allowance for these deductions therefore, and a further allowance of 10 per cent for probable error from the total of income derived from various occupations (see page 144 of "The Science of Public Finance") you get a figure of Rs. 795 crores. Adding to this a figure of Rs. 1,760 for agricultural income, we have a net total income of about Rs 2,550 for British India, or about Rs 103 per head in 1921-22

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Q. 5.—I think such a census is desirable provided the cost is not too great relative to India's rather limited resources.

Q. 6.—The information suggested would be useful, but I would first await experience of the cost of its collection and the degree of its comprehensiveness in Bombay, before passing similar legislation for all-India

Q 7.—Estimates of India's annual income are not altogether superfluous. They enable one, particularly with reference to agricultural production to arrive at a rough idea of the *per capita* income of 70 per cent of India's population, and thus, after a detailed enquiry into the ultimate incidence of each tax, to estimate the burden of taxation on agriculture.

Q. 8—We need many more such enquiries before being able to estimate the incidence of taxation on various classes

Q. 12—No

Q. 13.—In general, Government undertakings should endeavour to secure a bare return on capital invested in them. It may be advisable sometimes to charge prices giving a higher return when this is shown to be the method of raising revenue urgently required for other purposes, which would involve a less sacrifice than any other. In exceptional cases like opium or alcoholic liquors, drugs or tobacco, I would have no objection to Government's trying to gain monopoly profits It might appear that where either of the last two principles *i. e*, of a commercial return, or monopoly profits, were adopted, there would be an element of tax in the price charged by Government, but I don't think this would be conclusively proved, unless it could be shown at the same time that the price charged is higher than is being or would be charged at the same time for a similar commodity or service by a private undertaking.

Q 14—There is no element of taxation in the revenue from the heads enumerated with the possible exception of the item coinage and exchange In so far as profits on exchange result in a surplus of revenue over expenditure they represent an amount which, by more careful budgetting, might have been left with the people by a remission of taxation.

Q 15—I would charge a water rate for agriculture just sufficient to cover the cost of supplying the service including interest on capital This would prevent any restriction in the demand for water from those lands just on the margin of cultivation. Lands, the value of whose produce is greatly enhanced by irrigation facilities, could be made to contribute in addition by having to pay a higher revenue.

Q. 16.—I think the State is entitled to at least half of the increase in value of land due to its irrigation projects. I would prefer to have this share taken in a lump sum Where this would be inconvenient to the land holder, he might be given a period of five years within which to meet the amount plus interest, the Government having the right to take the amount earlier in case of sale of the holding or part thereof.

Q. 21.—I think it immaterial whether we regard indirect taxation as voluntary or involuntary. The point is whether such taxation involves a social burden When levied on most articles, particularly necessaries or mass goods, it does so, and should be estimated in considering the total burden on the tax payer When however, it is levied on articles, the social utility of which is less than their utility to individuals, an indirect tax is not a burden only so long as it is just sufficient to equalize the private with the social utility from the consumption of the article, and to that extent, it should not be included in an estimate of total burden

Q. 22.—Thus, I would not think a heavy tax on betting particularly on the race courses, or a fairly heavy tax on alcoholic liquors and drugs, or a small tax on tobacco, should be regarded as burdens.

Q. 58.—If the license system continues, cheating would not be more difficult if sale by weight were substituted, for dishonest traders would find means for using short weights. Sale by weight might be useful however, in government depôts properly supervised But then the cost of supervision may render nugatory any saving that might otherwise accrue to the consumer if dealers were thoroughly honest

Q. 59.—Cross freights would be saved in some cases, but (see previous answer) I cannot say whether retail prices would be actually lower as a result of sale in government depôts.

Q. 60.—No. Besides there is no need, with a moderate duty like the present, to exempt any salt, for whatever purpose employed.

Q. 61—No

Q 62—I am not an advocate of prohibition and therefore would not like the existing excise revenue surrendered But I believe that, even with the existing excise, some of the taxes proposed such as a succession duty, totalizator duty and tobacco tax would be needed by some of the provinces for expenditure on their nation-building departments.

Q 63.—I am in substantial agreement with the views expressed in the first five statements.

Q 65—I think the maximum rates might well be raised in Assam, Bombay and the United Provinces except where this would lead to evasion, through smuggling from adjacent Indian States or in other ways For, I certainly think that the amount of indulgence in liquor in Bombay City, the tea gardens of Assam, the industrial areas of the United Provinces as well as in some country districts where the rate is low, is excessive and should be curtailed, particularly if this can be done by increasing the revenue

Q. 67—Yes.

Q 68—No.

Q. 74—If at least the same quantity of liquor is being produced and sold to-day as in 1902-3, I would favour an increase in license fees

Qs. 75 to 77—In regard to opium, I think the Agreement with China was a mistake, and if it can be rescinded without loss of honour by India I would advocate a revival of the opium trade with China, as I see no reason why India should sacrifice a source of revenue merely to enable the Chinese to grow their own opium or import it from Persia and Arabia

Q 78—It is better for the tariff to be confined to a few articles in common use, provided this does not impose an inequitable portion of the total burden of taxation on the poorer classes

Qs. 79 to 82—Import duties should be reduced to 10 per cent on oilman's stores and provisions conveyances (including cheap motor-cars, bicycles motor cycles) umbrellas (not parasols or sunshades) and rubber tyres (including pneumatic)

They might be raised with advantage on :—

Ships and other vessels	from 10 to 15 per cent
Perfumery	„ 15 „ 30 „
Works of art	„ 15 „ 30 „
Cotton piecegoods	„ 11 „ 15
Arms and ammunition (excepting those for military purposes)	„ 30
Ivory	from 15 „ 25 „
Precious stones (unset and cut)	free „ 15
Mineral oil	from 7½ per cent to 15 per cent
Spirits and wines	Double existing duties

Silver coin and bullion (excepting Government of India Rupees 5 per cent

Gold bullion and coin (excluding Sovereigns) 2½ per cent

As regards Export duties, I think the duty on Raw Hides (cow and buffalo) should be abolished while it should be raised on :—

Goat skins	to 10 or 15 per cent.
Jute, raw —	
1. Cuttings	to Rs. 2-8-0 per 100 lbs.
2. All other	to „ 7-8-0 „
Manufactures—	
1. Sacking	to „ 24 per ton.
2. Hessians	to „ 10 „
Tea	to „ 3 per 100 lbs.
Shellac	to 10 per cent of value.
Petrol	6 annas a gallon.

Q 83.—Generally I favour the tariff valuation system but specific duties may be the simplest form of levy on those articles easily distinguished and not liable to great fluctuations in price.

Q 85.—I believe that with the more detailed classification which the future customs tariff of the country will contain, there will arise a need for a more efficient and better paid class of men to undertake the task of appraisement satisfactorily.

Q 87.—I favour the betting, luxury and tourist taxes in case of need

Q 89.—In case of financial need, commercial suits exceeding a value of Rs 10,000 may probably be made to yield additional revenue, by heavier stamp duties

Q 91.—I don't think duty on actual share transfers is evaded at all. But there is a large volume of purely speculative transactions which certainly do not pay duty If it is sought to make the latter subject to stamp duty, the only way of defeating evasion I can think of, is to require Stock Exchanges to collect the appropriate duty from members who may be required to return weekly lists of all their purchases or sales to the Exchanges. On this duty would be leviable. Even then speculation transactions completed within the week would escape.

Q 96.—I don't think there is much use in trying to draw a fine distinction between a tax and a rent It is sufficient for practical purposes to regard the Indian land revenue as pure rent in places, where it is so low as obviously not to exceed the economic rent of the land after making all deductions from the gross rent which can be directly attributable to the agency of the landlord or cultivator Where the Permanent Settlement is in force, I think it is beyond doubt that there is no element of tax in the revenue which is well below the economic rent of such lands.

Q 97.—It may be in certain raiyatwari provinces with a high assessment, that the land revenue will press hard on the cultivator in a subnormal season. But for the most part I believe his poverty is due to ignorance, indebtedness, and the fractionisation of holdings due to the excessive tendency in India for people to stick to their ancestral villages even when economic conditions hardly permit the earning of a bare livelihood.

Q 98.—No.

Q 100.—No The existing methods of land revenue assessment in most provinces provide materials for a rough estimate of agricultural incomes.

Q 101.—No. Firstly I would have a Consolidation of Holdings Act in every province and I would prevent future fractionisation by giving District Agricultural Officers, power to prohibit any sale or division of land below the economic unit for the district.

Q 102.—Yes.

Q 103.—I would abandon it to the local authority.

Q 104.—I would adopt the fourth method given below because the rent or annual value includes and reflects differences due to population, proportion of occupied or cultivated area to total area, and differences in fertility among the various provinces of India.

It would also indicate proportion of practically unearned income from land available for further taxation

Q 105—In so far as I would class mining royalties as unearned income, they would come under the higher rate of assessment in vogue for this class. Otherwise I am not in favour of further taxation on the exploitation of and trade in minerals.

Q 106—Yes.

Q 107.—Yes and No.
No

Q 109.—Practically.

I have no experience of the degree to which it can be evaded or not.

Q 110—I should think insufficiency of other sources of revenue

Q 111—No.

Q 113—I do not think that there are good reasons for such limitation, which in fact does compel resort to less desirable taxes

Q 115—Yes, provided improvements were only exempted for a period of say thirty years

Q 117.—Exceptional cases apart grants in-aid should not exceed amounts raised by the local authority itself, and should be earmarked for specific purposes Local authorities should, however, be given say 3 years within which to utilize the unexpended portion of grants of any years, and to provide their own quota.

Q 118.—It may exist in the case of local education, but not for sanitation or road maintenance

Q. 119.—I do not consider any of these taxes suitable in present conditions in India

Q. 120.—(i) No

(ii) I am in favour of most of these except such as would come under the category of taxing necessary means of transport like ordinary horses, cheap motors and motor lorries

(iii) Good if evasion can be prevented at small cost.

(iv) I am in favour of most of these in principle, but doubt the productivity of some *e g*, tax on patent medicines.

(v) Favour (subject to previous remarks) all except tax on hides where we have no monopoly.

(vi) No

Q 121—Yes

Qs 122 and 123—The 1st system is the most practicable and productive from a fiscal point of view even though it may lead to some curtailment of the tobacco acreage

Q 125—As indicated above, I would not mind if some lands owing to the duty were turned to other crops

Q 126—I think so seeing nearly 2/3rd of the tobacco area is in one district.

Q 127—No, but I would request them to levy a similar duty.

Q. 132—I would leave the present customs duties for two years to see the effect of the acreage duty on foreign imports and home trade respectively.

Q 133—I favour specific duties for manufactured or unmanufactured tobacco, but would prefer the tariff valuation system for cigars and cigarettes.

Q. 134—There is no noticeable increase in imports of manufactured tobacco, while the decrease in exports of cigars may be due to the great increase in local consumption of Indian cigars.

Q 135—An excise duty would be a handicap, but a heavy duty on imports would not be productive.

Q 136. No.

Q. 137.—Yes.

Q 138—In this connection I would refer you to the views expressed in Shirras' "The Science of Public Finance" pages 308 to 311, with which I am in substantial agreement.

Q. 140—I am in favour of the introduction of a system of estate and succession duties similar to the English one, with suitable modifications regarding the exemption limit and graduation. I should place the exemption limit at

Rs 2,000 at the least and at first, preferably at Rs. 5,000. Thereafter, [illegible] [illegible] r cent for Rs. 1,50,000 Thereafter, [illegible] would not go beyond a maximum [illegible] and over, I consider the percentages [illegible] relationship in the English system [illegible]

Q. 141.—I favour the Shirras' plan of exacting the state duty on the whole of his estate on the death of each coparcener of the oldest generation.

Q 143.—I think so. It is a result of the joint family system.

Q. 144.—Some movable property like coin and jewels would probably escape however efficient the system of administration. But it should not be difficult to effect a valuation of other movables like furniture and stock by a Local Board consisting of the District Officer and two or three assessors drawn for the purpose from a panel of the Municipal or District Board councillors of the locality.

Q 145—Until the Central Board of Revenue are thoroughly well organized with their Income Tax Officers and their subordinates thoroughly familiar with their work in their respective localities, I think it would be better to entrust the collection of the tax to the district authorities especially as for the next few years at least, the bulk of the revenue from this source will come from landed wealth

Q 146—I have already said Rs 5,000 normally, and in case of great need Rs 2,000.

Qs 147 to 161—Financial Relations between Central and Provincial authorities

While accepting the present system of separation of existing sources of revenue, as the starting point, I would abolish the provincial contribution This would leave a substantial margin to some provinces for expenditure on primary education, sanitation, and other much needed services. As regards new sources of revenue, they would be leviable by the Central or Provincial authorities according as uniformity were or were not essential for deriving the maximum revenue at least cost Where enhanced yields from customs, income tax, succession duties, tobacco tax, a tourist tax and the like are likely to create a large surplus in the Central Budget (I would lay down a rule that the Central Government should exercise the most rigid economy in their expenditure), I should allocate this surplus to the provinces in proportion to the product of their population and the total revenue (central and provincial but not local) collected within their borders To prevent uncertainty and allow the provinces to follow a continuous programme of development, I would fix the sums contributable by the Central Government for a period of seven years subject to revision thereafter in the light of the then Budget surplus. Except for small loans for purely local development, I would concentrate all borrowing for provincial requirements in central hands, the Government of India borrowing in the world market and opening a Capital Loan account with the relative provinces, interest of which will be a first charge on the revenues of the province including its contribution from the Central Government. Where a particular asset like an irrigation scheme or a railway is likely to give a direct benefit to two or more provinces, the loan for its construction should be shouldered by the Government of India but the beneficiary provinces should contribute to the Central Government's coffers to an extent not exceeding the interest on the loan in proportion to the rise in land values occasioned by the new development in each province

Q. 162—I am against any taxation by the Provincial or Local Governments of the property and transactions of one another. But the Central Government must of course retain the power of inflicting any new taxes necessary provided there is no unfair discrimination between one province and another.

Qs. 163 to 170—I think the existing Land Revenue staff could in the first instance be usefully employed in their areas for collecting income-tax on agricultural incomes, tobacco acreage duty, and estate and succession duties Then as these taxes became familiar to the people and their collection to the Central Board of Revenue, the latter organization might take over the agricultural incomes, estate and succession duties. The tobacco duty could be administered by the Land Revenue staff and it should not be impossible to combine the Excise and Land Revenue staffs (at least in agricultural areas) thereby effecting some economy in administration

Q. 171.—Yes.

Professor Solomon gave oral evidence as follows :—

The President. Q—You are now the Chairman of the Department of Economics?

A.—Yes; during Dr. Hyder's absence.

Q.—I understand you do not consider any part of the forest revenue to come under the definition of a tax?

A.—No; I do not.

Dr Hyder Q—In reply to question No 13 you say "Government undertakings should endeavour to secure a bare return on capital invested in them" What are your grounds for making the statement?

A—Because when the Government charges a bare return on capital invested, it is pretty obvious that there is no element of tax.

The President. Q—Your proposition is that there is no element of tax so long as you do not charge more than a private undertaking charges?

A.—Yes

Dr. Hyder. Q—With regard to your answer to question No 15, I do not understand what you mean by lands being on the margin of cultivation

A.—What I mean is this If you raise the cost of water to those lands, that might be just sufficient to make it unproductive to cultivate those lands Surely there must be some lands where if the cost of cultivation exceeded a certain amount, it would not be worthwhile to cultivate There must always be some land on the margin

The President Q—Is there not a wide gap between the cost of supply of water and the charge which would put land out of cultivation?

A.—Of course, there would be such a wide gap in the case of some lands. But there may be other lands which just pay the cultivator having regard to the existing rates for water As I have indicated in other answers to the Questionnaire, there must be many lands which benefit to a great extent from the supply of water; but their increased values can be got at by enhanced land revenue and by the extension of income tax to them

Q—Suppose land revenue is based on a percentage of the economic rent of the land without water Then an increased return you get from that land on account of the supply of water must be taken in the shape of a water-rate

A.—Yes, but are you assuming that land revenue is always based upon the income from the land without water?

Q.—No In certain provinces the two are merged But even then supposing, as is the fact in the greater part of India, the total revenue is only one-third of the economic rent Are you going to limit the charge for water to one-third?

A.—I would separate the charge for water entirely from the question of land revenue I regard water as a certain commodity supplied to the land

Q.—Taking the *malguzari* system in the Central Provinces, suppose that the land revenue is half the rent Suppose the return is Rs 100, his rent would be Rs 50. Half of that is land revenue You add water and it raises the total to Rs 150. Now are you going to take 75 as his return and 37½ as Government's share?

A—I have already said that I am in favour of the State taking half of the increase in value of land due to its irrigation projects in the shape of a betterment tax, preferably in a lump sum.

Q.—And you spread it over a period of five years?

A.—Yes, in cases of hardship

Q—It amounts to a terminable annuity?

A.—Yes, *practically*.

Q—Are you going to take a portion in the annual value?

A.—The capital value has increased simply because the annual value has increased Therefore, you have already deprived him of part of the increment of annual value when the man is made to pay half of the capital value. This method would not prevent the making of improvements on land so much as that of increasing the annual charge on the land substantially.

Q—The value of the land would be increased only by the supply of water or any other benefit that you give to the land That increase continues to grow

A.—I should think that within a very few years of an irrigation scheme being put in order, the full effect of that scheme on the capital value of the land will have accrued.

Q—Is that in accordance with experience?

A.—I should think so When you complete an irrigation scheme and the water is being used, *then the full effect on the value of the land may be said* to have taken place

Q.—Do not other developments follow, *i e*, railways, towns, markets, etc.?

A—I think five years is a fairly long period to allow for these other developments to follow.

Q—Take the case of the lower Chenab canal. You say that the increase in value ceased five years after the canal was introduced?

A—But the increase is not due purely to the canal You cannot attribute all these subsequent effects merely to irrigation. That no doubt is the main cause, though not the only cause For instance, there is the general increase of population The increase in land values resulting subsequently can be got at through the land revenue, and also through making incomes from land subject to income-tax When you apply income tax to agricultural incomes, they are bound to pay on any increase they get The profits of agriculture due to the original supply of irrigation might increase owing to subsequent developments And this increase due to subsequent developments will be subject to income-tax, just as increases in the income of a business man.

Q.—Did you estimate the number of agriculturists that would be liable to income-tax?

A—I could not, though I have tried to indicate the sum that you would probably get by making the agriculturists subject to income-tax

Q—Would you be surprised to be told that the number of people paying a revenue of Rs. 500 and over in the Punjab is only about 2,300?

A.—I am in favour of reducing the income tax limit to Rs. 1,200 The *present limit of Rs 2,000 is too high.*

Dr. Hyder. Q.—Even then in the Punjab you can collect as income tax only 5 to 7 lakhs

A.—I am rather surprised, but should like to be corrected in this idea of mine. I was thinking of Bengal I thought that if you made the agricultural incomes in Bengal liable to income tax, the total taxable income liable at about 24 pies under my schedule would amount to something like 8 crores, and that you could get about 1 crore from that group Then I estimated that there would be about 4 crores of income with people who would be liable to 1 anna in the rupee from whom you would get a quarter of a crore, and another 25 lakhs from other incomes. So that altogether I expected about 1½ crores from Bengal, at least 1½ crores from Bihar and Orissa, 1 crore from Madras and ½ crore from United Provinces I have not worked out the figures for other provinces but on the whole I thought we might get a fair income, say, about 8 crores in all

Q—In answer to question No 21 you refer to social utility May I know what you mean by "social utility"?

A—Let me give you the case of consumption of alcoholic liquors. What I mean by social utility is this The consumption of alcoholic liquors to the consumer may be of greater utility than to the State It may pay the State to restrict the consumption of alcoholic liquors Though individual utility is reduced by the imposition of the tax on the goods of consumption, social utility may not be

Q—I do not understand what you mean exactly by social utility. I can understand the utility to the individual of drinking a bottle of liquor

A.—I can define it as the amount of welfare in general, not only to the individual but to the State as a whole, from the consumption of certain commodities It obviously includes to a certain extent individual utility. But you may have to subtract something in the case of certain articles from individual utility to get to social utility, as in the case of alcoholic liquors For instance it may make me very happy to drink ten bottles of wine. At the end of that my individual utility may be 100 units But the State would have to pay in the shape of policemen and in the shape of loss of my own mental and moral capacity. This will reduce the net benefit to the community as a whole from the consumption of those ten bottles. The social utility from the ten bottles consumed by me is, therefore, something less than its individual utility to me

Q—You mean the social disutility?

A.—Social utility includes individual utility and may be something more or less It depends upon the article and the extent to which it is consumed

The President Q—Would you not say that a tax which a man can avoid forms no part of his burden?

A—The tax he can avoid without any loss of satisfaction to him, certainly is not a burden Supposing I am a teetotaler, the tax on drinking is not a burden to me

Q—If you are not a teetotaler, you will not take that line?

A—No.

Q—If you are not debarred by religion, it is a burden?

A—I think so

Dr Hyder Q—In reply to question No 24 you say "I think an entertainment tax and particularly one on railway tickets, destructive of social utility, and hence objectionable" What particular tax have you in view?

A.—I am against both taxes—tax on entertainments and on railway tickets There may be some kinds of entertainments which are unsocial But I think there are not many of that kind Entertainments generally are social and to tax them would reduce social utility Entertainments as such should not be discouraged.

Q.—It was said in Benares that the wage of an ordinary daily labourer was 2½ annas in 1902, and last year it was about 14 annas, and the increase is spent chiefly on drinking and cinemas Don't you think that the State ought to discourage this kind of thing?

A.—I would certainly try to discourage drinking Assuming even that statement is correct—I do not think it is—I do not think attending cinemas is heinous or such that the State should discourage it I do not think that entertainments as such should be discouraged

The President Q—But do they form part of the man's burden?

A.—I do not know Why should it be a burden?

Q—That is the point It is the part of the burden of taxation

A.—If there is a tax on entertainments certainly that constitutes a burden on him; because the consumption of that would be a social utility. Therefore, any tax on entertainments would result in a reduction of social utility.

Q—Even if he spends his money on them when he ought to spend it on better food and clothes?

A.—That is a case of temperament. There may be a few unique people who, while they deprive themselves of necessaries like food and clothing, waste a lot on drink and so-called entertainments. But you cannot legislate for these people

Dr Hyder. Q—This applies to the vast majority of labourers in Bombay and other places

A—In Bombay, I do not think that, so far as entertainments are concerned, they are consumed to such an extent that it would be advantageous to the State to discourage their consumption

Sir Percy Thompson Q—They are a luxury?

A—After a certain point, yes

Q—The disutility of the tax on entertainments is surely less than the disutility of income-tax

A—Not necessarily It depends upon the income and upon the extent to which entertainments are consumed.

Dr Hyder Q—With regard to question No 26, what principle should we adopt in taxation? You are an advocate of the aggregate sacrifice principle?

A—Yes

Q—In the latter part of your answer you make a qualification. It is not quite clear to me.

A—I am afraid I have not succeeded in making it quite clear. I think this latter portion may well be omitted from my written evidence.

Q—You say "the marginal utility of the last rupee of income to everybody is equal." This means socialistic equality?

A—Yes. It is the same principle.

Q—Are there any qualifications which you will introduce in enunciating this principle?

A—In so far as I think it is impracticable because the expenditure of a State is usually so much greater than it would be possible to supply or provide for by this principle, I would be in favour of the principle of proportional sacrifice as represented by schemes of progressive taxation. That is the only modification I should introduce.

Q—But people who have enunciated this principle have also introduced certain limitations and qualifications The first qualification is that if you were to adopt this principle rigidly, you would at once cause a check to the growth of wealth or to savings

A—Not necessarily. That was the argument brought against all schemes of progressive taxation in Great Britain

Q—It is not identical with schemes of progressive taxation If you adopt this principle of least aggregate sacrifice as the right test of Government action, it comes really to this. That all incomes above a certain level should be brought down to that level

A—Not necessarily. Compare a man earning a thousand rupees per month and one earning Rs 200 a month. The scale of consumption is different. If you knock off Rs 400 from the first man, he may get from the consumption of Rs 600 just the same amount of total utility as the man earning Rs 200, and the principle of least aggregate sacrifice would require you to stop at Rs 600,

and thereafter to take only such sums from each man as will involve an equal loss of utility to each

Q—Your proposition is that the man with Rs 600 may get the same total utility as the man who gets Rs. 200?

A.—Yes; and by taking Rs. 10 from the man who is left with Rs 600, you might be causing as much disutility as you would cause to the man getting Rs. 200 by taking away Rs. 2 from him.

The President Q—How are you going to measure the loss of utility?

A.—That is, of course difficult

Dr. Hyder. Q—I think, if I remember rightly, the principle was enunciated by Edgeworth, and he has introduced certain qualifications in the application of the clear cut principle of least aggregate sacrifice One is that you have got to take into account the fact that equality of incomes and equality of natures cannot be brought about, and even if you bring about equality of income, you cannot bring about equality of natures The other is that you have a check to saving.

A—That I do not entirely agree with, unless you adopt the Bolshevik principle You may follow this principle of least aggregate sacrifice, and yet not impose any check on saving at all provided that the process does not go very far.

Sir Percy Thompson Q—Surely all taxation imposes a check on saving

A.—I do not think so If you mean that it reduces the total amount of saving, that is right That is tantamount to saying that all taxation is to come out of the surplus income

Dr. Hyder Q—Supposing you have carried out your ideal What would be the result? Would there be any rich people in the society?

A.—I would not abolish rich people In the instance I gave, the principle would require that after you brought the income of the man getting Rs 1,000 down to Rs 600, you must start taking money from the 200 rupee man before you take further from the 600 rupee man

Sir Percy Thompson Q—I have often heard this proposition The ratio of utility of income after you take the taxation to the income before you take the taxation should be a constant quantity

A—That is not the same principle as the principle of least aggregate sacrifice It is the principle of proportional sacrifice you are thinking of

Q—Compare the man getting £10,000 a year with one getting £600 a year Suppose you take £200 from the second man and leave him with £400. You would not take £9,600 from the other man

A.—In enunciating the principle of least aggregate sacrifice, I admit that qualifications have to be made You have to introduce a qualification to allow for the difference in individual taste and scale of consumption, and if you, in fact, bring the 10,000 man to 400, you would impose a tremendous hardship on him I do not aim at equality of incomes, though I aim at equality of utilities left from incomes That depends upon the temper of the people and I do not think that those things depend only upon income

Dr Hyder Q—If I read your answers rightly you are an advocate of the least aggregate sacrifice principle The only goal one can reach is socialistic equality.

A.—Not equality of incomes but equality of utility

Q—You could not bring about by legislation equality of natures

A—I agree

Q—Therefore, the State can only exercise influence on incomes, and if you are an adherent to the principle of least aggregate sacrifice, you have got to bring down everybody to the same level of income.

Sir Percy Thompson. Q—Take, for instance, the miser with Rs. 100,000 a year. It hurts to take a rupee from him

A.—Yes, according to my ideal it would not be possible to take that rupee from him But again, these are unique cases

The President. Q—If you follow the law of diminishing utility to its logical conclusions, you put the whole of the tax on the rich people.

A—If there are no rich people to tax, you still follow the principle of least aggregate sacrifice and you will have to take an equal amount from everybody.

Q—Do you agree with the conclusions arrived at by Robert Jones in his "Taxation Yesterday and To morrow"?

A—Yes; I entirely agree with those you have just read

Dr. Hyder Q—Why do you think that this principle of least aggregate sacrifice should be adopted purely as a matter of theory? Why not the principle of equal sacrifice?

A—Simply because it would leave a greater amount of utility in existence.

Q.—In your view the Government should aim at increasing the sum total of human utilities?

A—Yes, that should be the object of the Government

Sir Percy Thompson. Q—With regard to income-tax, I do not think that the schedule of rates you give differs very much from the rates in force at the present time

A.—Not much, except perhaps in the lower limit

Q—If you reduce the exemption limit to Rs 1,200, probably in order to get some symmetrical scale, the rates that would be imposed would be very much on the lines that you suggest

A.—Yes I have also increased the maximum rate and I have made a difference between earned and unearned incomes

Q.—And for that reason you do not think it is necessary to increase super-tax?

A—I do not think so

Q—You say you would include agricultural incomes. Apart from rents, how are you going to get at agricultural incomes?

A—I think I would follow some plan like this You have assessments based either on gross income from land or on rents Let us say the rent is one third of the gross income from the land. I think it would not be impossible for the land revenue officers to estimate in their individual districts some rough proportion of the balance (two thirds) of the gross income which after *deducting the expenses of production you may rightly describe as the agriculturist's* income.

Q—Would you go so far as to adopt the English system which assumes that the profits of the cultivator are exactly equal to the rent?

A—Do you mean land rent or land revenue?

Q—The rent paid by a cultivator to his landlord.

A—I was not aware of this system I would not go so far in India But still I am going to take some proportion of the land revenue

Q—Do you think that you can take anything like four times the land revenue?

A.—Certainly not

Q—Three times?

A —I do not think so

Q —Twice?

A —I might in some provinces Of course, we can also take four times the land revenue in some provinces It depends upon the nature of the settlement If you exclude the permanently-settled provinces, it is certainly not four

Q —If you take a province like the Punjab, for instance, there are 3½ millions of cultivators there Out of these, there are only 2,300 who pay land revenue of Rs 500 or more If you take it at twice, that means that all the cultivators, except the 2,300, would be getting an assumed income of less than Rs 1,000

A —In the Punjab you might raise the figure, because there I do believe that the land revenue is a smaller portion of the gross as well as of the net income from the land

Q —Suppose you take it at four?

A —Yes; you must vary your figure from province to province

Q —But even then you get an extraordinarily small proportion of cultivators liable to income-tax. Apart from the question whether assessing the agricultural incomes to income-tax is right or wrong, the question has been raised whether it is worthwhile to do so You would have a tremendous machine at work

A —I do not think you need to increase the existing machinery very much. Would it not be possible to say that a certain proportion, not of the land revenue nor of the rent paid, but of the gross income might be regarded as the income of the cultivator?

Q —But this gross income is calculated only once in 30 years and you cannot charge income-tax once in 30 years

A —But I should still think that the District Officers, with the means at their disposal, could estimate the actual income of the agriculturists roughly.

Q —While you think that the tax on agricultural income is theoretically justified, it is a question of expediency.

A.—I think that it is not only expedient but also practicable I am quite sure it is practicable, and there need not be much extra expense for that purpose You have got your machinery there; you have got your District Officers, you have got the land revenue records; you have got a rough idea of the change in prices of commodities, the change in incomes from certain lands and you can always use that But you will have to compel the cultivator to make a return

Q —We cannot do it in England even

The President Q —Have you any acquaintance with the village accounts; land records, for instance?

A.—Not of any particular village; but if you mean whether I have studied the method by which the revenue is assessed, yes

Q.—Can you give me any idea how, if you are doing this, you would set to work to find out the particluar agriculturist who earns an income of Rs. 1,200 and upwards?

A —First of all, there are the village accounts. At least there is some estimate of the gross income from various holdings.

Q—No; there is not.

A —They estimate the quality of the land and they make an estimate of the gross produce

Q —Not for each holding; but for several holdings together Even to at the holding there is no record of each individual. The number of

noted in the census as holders of land is a fraction of the number shown in the revenue accounts. One man may hold quite a number of holdings. Again you have got an enormous number of holdings which are held jointly.

A.—That makes it difficult. Four years ago I was against the extension of income-tax to agricultural incomes; but that was because I suggested that the permanent settlement should be removed It is immaterial to me whether you try to get at the incomes from agriculture by means of making them liable to income tax or by rescinding the permanent settlement. It is a matter of expediency. You can adopt the course you think better. But I do not think it would be impossible to get over the difficulties. Our land revenue system of to-day was considered impossible 130 years ago

Q—You would apply a varying factor to the land revenue in different provinces in order to ascertain the income?

A—Yes; but I would prefer not to make it a proportion of the land revenue but rather a proportion of the estimated gross produce

Q—What you really want to do is to make the land revenue progressive?

A.—Yes Not only that, but I want people getting incomes from land to pay their fair share of taxes to the country by whatever means is most expedient.

Q.—Have you ever considered the Australian or New Zealand system which is based on capital value and is then progressive?

A—That is a very good system if it is based on capital value.

Sir Percy Thompson Q—In reply to question No 45 you say "If all securities and investments were taxed at the source before distribution of dividends or interest, I don't see how bearer securities could evade the tax." What about foreign Government bearer securities or those of foreign companies?

A—I did not think of them

Q—What about super-tax?

A—For that, he must make a declaration.

The President Q—With regard to question No 37, would you subject the person to two super-taxes? That is, you charge super-tax in the case of the company and you would also make the person liable to super-tax in the case of the holdings in the company which he might have?

A.—What I meant was that the companies should be regarded as individuals and the super-tax taken at the source; but individuals who have shares in companies will always have to make a declaration of their total incomes and to the extent that they have paid super-tax on their shares they should be exempt from it.

Sir Percy Thompson. Q—One great difficulty is this There will be no relation between the amount of profits and the amount distributed in dividends. All the profits cannot be distributed and you may have an immense difficulty if the individuals are not charged at all

A—I think still that he should get a refund of any super-tax the company has paid It is really a double tax

The President Q—You still think that the individual should get a remission which he does not get now?

A.—I think he should Because it is a sort of double taxation and I am not in favour of it.

Q.—Would you rather go and declare his income?

A—Yes, I do not think that part of the income which comes from the company and has already paid a tax, should be liable again.

Q.—Companies are always better to tax and it is more easy to effect their taxation than individuals Are you going to remit the whole thing?

A—Only to a certain extent The present system is hard on the man who is taxed doubly.

Sir Percy Thompson Q—I do not agree with you that it is double taxation except in the sense that super-tax and income-tax constitute double taxation.

A—Take the case of a man who is paying super-tax on his share of income from the companies, and that income is added to his total income. If in virtue of this income he is again made to pay super-tax on the assessable portion, this, in my opinion, is double taxation Besides, my point is that the poor man must not be liable to the super-tax simply because he has got some shares in the company

Q—One reason for super-tax on companies being justified is this. The individual pays income-tax and pays super-tax on the whole of the profits, whether he lives on the business or not, but the company only pays super-tax on the portion of the profits distributed It is, therefore, said that the company has an advantage over the individual. This charge of one anna is put to compensate for the advantage the limited companies have

A.—Is there no other way of equalising that advantage?

Q.—It is difficult to say.

A—Cannot the undistributed profits be made liable to super-tax when at some future date they are distributed—as they must be, if the company continues to flourish—in the form of bonus shares, or the like?

Q—But that is not income?

A—Certainly it is, it is nothing else but income

Q—Suppose you buy a small piece of land for Rs 200, then you sell it because it has grown to be worth Rs 1,000

A—Well, I regard that Rs 800 as pure profit. I think that is taxable

Q.—Then why don't you tax all the profits on shares?

A—Certainly I would

Q—But you would not allow rebate on losses?

A—No

Q—Why?

A—Because that would keep out foolish speculators

Q—Do you mean to say that if you have two concerns and make a profit of one lakh on one and a loss on the other, you would tax only on the profit and not allow for the losses?

A—Certainly If you are foolish enough, you have to suffer

The President Q—In answer to question No 43, you say that you think the most effective method for reducing income-tax frauds in India, is the offer of 25 per cent of the additional revenue to informers with whose assistance they are realised Do you really think that it is better to encourage the system of spies?

A—I am afraid having regard to all the circumstances that is the only way in which you would get a lot of income which is now evading income-tax.

Q—Will it not create a profession of informers in India?

A—I do not think you will create such a profession, but you will certainly improve your revenue I know now many business incomes that escape taxation. I am quite sure there are hundreds of clerks or other individuals in the business, who know the incomes, and therefore, if you have this system it would be a stimulus to them to expose frauds. Besides, the fact of the reward

and accompanying penalty would prevent many people from perpetrating the frauds they would otherwise do Any means to prevent evasion will be really good

Q—Are you going to bribe these clerks?

A.—No, you are not going to bribe them At present as somebody said income-tax is a tax on honesty By my scheme you would be really placing obstacles against dishonesty.

Q—You know twenty-five per cent. of the salt consumed in India is imported, and the fact was the cause of much difficulty during the war. Do you consider that it would be proper to impose a protective duty to enable India to be self-supporting in this respect? Would that be fair to the Bengal consumer? Do you know why Bengal consumes imported salt?

A.—Partly because it is very far from the centres where salt is manufactured in northern India, and railway freights are high

Q.—On the other hand, it is much closer to Madras, but the salt produced in Madras—large crystal salt—is not consumed by Bengal, and in addition there is the fact that the railway freights are high

A.—Why should not Madras salt be imported by sea? Then the rates might be cheaper

Q—It is a different thing altogether In so far as the freight is concerned, I think, it is only a temporary cause The principal cause is that Madras salt is made to suit the taste of people there, and moreover salt is sold in Madras by measure Bengal wants clean small salt which is not produced in Madras The difficulty is that during the war Bengal was consuming the Madras salt, and as soon as the war was over, it began to import the foreign salt Thus the factories started in Madras to supply Bengal with salt were ruined

A—The fact that Bengal did take the Madras salt shows that the obstacle was not insuperable I am not in favour of stimulating salt production by means of a protective duty

Q—You disapprove of the imposition of supplementary duties on foreign liquors by local Governments?

A—I would like to modify my statement On the whole I would give the liberty to the local Governments Although I might give the liberty, the power, to indulge in such taxation will be limited by the tendency to import liquor from provinces where the rates were lower or entirely absent

Q—Do you think it is a matter of much concern as foreign liquor is only consumed by a limited class of people?

A.—That is why I say it is not worthwhile to restrict the liberty to tax them

Q—What is your view about the distribution of revenue between the central and Provincial Governments?

A.—Regarding my suggestion about the distribution of revenues, I think we will have more revenue coming in, and it should be distributed according to the product of the population of the province and the total revenue collected in it.

Q—Do you think there will be support from all the provinces?

A—I think there will be support It would not prevent them managing their own affairs.

Q—To manage your own affairs, you should raise your own revenue?

A—I am not here for entirely restricting what I would call the power of local taxation. Local Governments would still possess their existing sources of allocated revenue, subject to slight modification

Q—I do not understand your answers to questions Nos. 147 to 161 You say "where enhanced yields from customs, income-tax, succession duties, tobacco tax, and a tourist tax and the like are likely to create a large surplus in the Central budget," you would lay down a rule that the Central Government should exercise the most rigid economy in their expenditure and would allocate this surplus to the province What are you going to do with the land revenue and excise? Are they to be Central or Provincial?

A—I would not interfere with them In my written statement I have said that I should accept the existing system of division of sources of revenue as the starting point. Then I would abolish the provincial contributions. I do not wish to start a new scheme by abolishing the existing one

Q—I thought from your answer to question No. 168 that you would make the new proposals on the abolition of the old system

A—No Where in regard to certain sources the Provincial Governments have power of imposing taxation I would leave them that power, but most of the increased taxes would really come to the central purse

Q—But succession duty and tobacco would go to the provinces?

A—Succession duty would be a uniform duty It would require a central administration and might well be in the hands of the Central Government

Q—What about tobacco?

A—I am in favour of levying tobacco duty on an acreage system

Q—Will it not be provincial?

A—Not in the first instance

Q—As regards making agricultural incomes subject to income-tax, would it be legitimate to make it central when all lands are provincial?

A—Why not? Land revenue I regard as the State's share of the produce of the soil in its capacity of owner

Q—Land revenue is defective because it does not provide for progression. You suggest progression in a particular way As long as you have progression in the land revenue, you are satisfied so that clearly it come to this The new tax should go to the provinces and not to the Central Government

A—Income-tax is now central revenue, is it not? If you adopt the income-tax method in regard to the agricultural incomes then it would be all right

Q—If you adopt that method of making the provincial source of revenue progressive, you do it by giving the Central Government the additional return?

A—If you did it to all the provinces, where is the inequality?

Q.—Inequality will rise in this way You would get a much larger proportion of return by income-tax in some provinces and in some much less than that or you would not get any at all?

A—Under my system the provinces yielding larger revenue would get back some portion of this But I admit they might lose a large portion of it to other provinces The remedy for this is for the permanently settled provinces to request that the settlement be rescinded

Sir Percy Thompson Q—With regard to customs, I notice that you suggest articles that are already heavily taxed Why do you want to tax ships more heavily?

A.—I suggested ships, as I thought they could bear a heavier tax Demand for them practically is inelastic, I think

Q—Is there not an idea of creating an Indian Mercantile Marine?

A.—I am considering these duties only from the bare revenue point of view. I am not concerned with the question of protection

Q—You would put increased duty just up to the point of diminishing returns? Would you not do that in the case of spirits and wines?

A.—I cannot really say. Do you think the consumption of whisky would be stopped under the heavier duties suggested by me?

Q.—Yes, very largely.

A.—I have not got any firm opinion about this I am willing to be convinced.

Q—The duties on these spirits, wines and whisky have been deliberately increased as compared with duties in England?

A.—There is a class of people in India to which these are practically a conventional necessity. They would not mind paying higher prices for their whisky But in England it is quite different, for the average middle class man is the principal consumer and a large increase in cost would greatly reduce consumption The same class of people, who come here from England, form a different financial and social grade here. But, if Collectors of Customs are of opinion that the duties are now at the maximum, I do not think I shall press my enhancements.

Q—How are you going to collect duties on precious stones?

A—I think there is already some tax. There are some on precious stones, I am not sure whether they are unset or uncut

The President Q—Perfumery, scents, etc, come under the tax on spirits?

A—I do not think so. I want to withdraw two articles I have mentioned among those for increased duties They are Works of Art and Ivory. I do not think it would be useful to increase the duty on these articles

Q—You want to tax mineral oil Are you going to tax the poor man?

A.—How?

Q—It means you want to include kerosine oil?

A.—No I would exclude kerosine, but there are other forms of mineral oil.

Q.—Why do you want to abolish the duty on raw hides and increase it on goat skins?

A.—Hides are not a monopolistic product, particularly the heavier kind. You would probably find my statement verified if you examine the people in Calcutta I, therefore, say the duty on raw hides should be abolished It is 5 per cent now

Sir Percy Thompson Q—My impression is that it was abolished or reduced last year.

A.—No, the tax still exists I think we can easily have a higher tax on goat skins The bulk of them go to America, and the demand for them is inelastic. I believe a slight increase to 10 per cent would not prejudice the trade and would bring a good return

The President Q—You would put heavier stamp duties on commercial suits exceeding a value of Rs 10,000?

A.—I said in the case of financial need and as a financial relief. I am not in a position to say whether they have increased stamp duties, perhaps in some cases they have, but not in others.

Q—You don't say that duties on share transfers are evaded?

A—Not on actual transfers of shares, but they always pass through numbers of persons before the final name is registered.

Sir Percy Thompson Q—Would not the suggestion in your written statement be very oppressive because it will be interfering with the stock exchange business?

A.—I am afraid there is too much speculation.

Q.—It is not speculation?

A.—I believe the volume of non-speculative transactions, compared with speculative ones, is something like one to three.

Q.—You would actually kill the trade?

A.—I do not think so. I do not think the duty I propose would be large enough to prevent the *bonâ fide* investments, though it might be quite a hindrance to speculators

Q.—What do you do, suppose you have to purchase shares You have to go to a broker, he sells some to you, he buys them from some other people. Now if on all transactions there is a duty of 1½ per cent, would it not kill them?

A.—No. The buyer would pay it

Q.—What about the seller? The broker would be the buyer in the case where you want to sell?

A.—I do not think the broker himself buys it, but he is buying it for somebody else

Q.—Who plays the part of the jobber and the broker?

A.—Unfortunately the stock and share trade here is badly regulated and there is a great deal of speculation The broker and jobber are one and the same person often Therefore 1½ per cent. may be a hindrance, but it would not be such a hindrance that it would be unbearable In England, you could go to the broker who would give you good advice about the market, but here it is not so The trade here is badly regulated I think we must get some revenue out of it I think it is a legitimate source which should be tapped. I am talking from experience of Bombay

Q.—In England or France, they do not attempt to take duties upon each transaction, but only once each settlement day, when the shares are handed over by the original seller to the ultimate buyer between whom a long list of intermediaries may have intervened

A.—My suggestion would be really the same, because I would make the Stock Exchange authorities collect the duties from the members once a week Within the week all the speculative transactions that are completed are bound to escape, because they are unlikely to be included in the record of transactions to be submitted to the stock and share brokers' Associations by their members.

Q.—You say that it is sufficient to regard the Indian land revenue as pure rent in places where it is so low as obviously not to exceed the economic rent of the land after making all deductions I think it is suggested elsewhere that land revenue paid exceeds the economic rent

A.—It may be in some places I do not say it is I say only that in a sub normal season, because the income of the cultivator is so low generally, if the crop is only 1/5th of the normal, this might mean that half of his income would be gone The assessment may be quite just, but in a sub normal season it might be hard on him

The President Q.—There is no reason why land revenue should be levied on agricultural lands and not on other lands? There is a very large unearned increment in the urban areas?

A.—Yes I do not understand why it should not be levied That is a point which you should view from the relative standpoints of the local and provincial authorities The local authorities may say that these improvements are due to their activities

Q.—The central authority may collect the tax and then make over the proceeds to the local authorities? There is no reason why the urban areas should not be assessed as the rural lands?

A.—What I mean is that it may not be fair to the local authority to ask the urban people to pay either on the capital value or any other value as the rural man. That increase may be due to the activities of the local authorities.

Q—With regard to question No. 113, you don't think that the local rates ought to be limited?

A.—No I do not believe in it I speak subject to correction. I do not think it need be limited

Q—You recommend a tax on dowries?

A.—Yes I have no objection to tax the dowries if it is practicable and if evasion can be prevented

Q—Would it not be unpopular? Would it not be particularly resented as an interference with the domestic affairs of the people?

A—I do not know that You know there is a tendency to give excessive dowries even at the cost of borrowing If this tax can check the evil, it is very desirable. But the whole scheme is subject to its being practicable. If it can be evaded, then, it is not worthwhile to tax

Q—You don't believe in the productivity of taxing patent medicines?

A—I do not know how you would be able to collect it.

Q—It is very easy. You should simply put a stamp on every bottle

A.—If it cannot be evaded I have no objection

Q—You would impose a tax on tobacco and you would levy an acreage duty?

A.—Yes

Q—If an excise duty were imposed upon local manufacture, at what rates would you fix it on cigars, cigarettes, etc? Will the acreage duty affect the Indian manufacture?

A.—At present the production and consumption of Indian cigars and cigarettes from Indian tobacco is increasing I do not know how this might be affected by the proposed acreage duty If the home trade is badly affected, then perhaps additional customs duties will have to be considered. The decrease in exports of cigars may be due to the great increase in local consumption of Indian cigars

Q—You also think that as the result of the joint family system, the succession duty would operate most inequitably? How is it the system works in other countries?

A—I was not thinking of the conditions of other countries. What I meant to say was that under the joint family system, the head of the family has to carry on the family and on account of that many people do not work simply because the head of the family works, whereas in the English system it is not so This is one of the weaknesses of the joint family system in India. I do not condemn the joint Hindu family system because it has many good points too.

Q—Regarding the question of division of the proceeds, Professor Seligman has given the possible plans under the different heads given in our questionnaire and recommends a combination of the second, third and fourth You don't follow any of these plans?

A—I think we already have No 3 I do not think any one system ought to be regarded as good to the exclusion of another After all it is a question of convenience. I would start off with the present system and aim at providing the provinces with more revenue The first step I would recommend is to abolish the present provincial contributions, the second step would be that if these taxes we are talking about are levied, that portion of them which would come under the central purse should be divided among the provinces in proportion to the product of their population and the actual revenue collected in them for central and provincial purposes If you were to make it proportionate to the population only, that would be unjust to those provinces like Bombay and the Punjab which believe in the raising of their standard of living, and for that purpose levy heavier taxation. That is why I would adopt as the criterion for distribution of surplus revenues in the Central Budget, the product of the population and the total revenue (central and provincial) collected in each province.

6th February 1925.

Delhi.

PRESENT :

Sir CHARLES TODHUNTER, K C S I , I C S , President.

Sir BIJAY CHAND MAHTAB, G C.I E., K C.S I., I.O M., Maharajadhiraja Bahadur of Burdwan.

Sir PERCY THOMPSON, K B E , C.B.

Dr. L K. HYDER, M.L A.

Mr. SAM HIGGINBOTTOM, Allahabad Agricultural Institute, was examined.

Written memorandum of Mr. Sam Higginbottom.

Q. 15—Regarding the charge for irrigation water. In general the charge is too low, but what the cultivator is compelled to pay before he gets water may be too much.

Irrigation water is not available for all. It gives an added value to land, gives certainty of crop and therefore security to the cultivator who has it. The added value is in the nature of an unearned increment and therefore the increase should be shared by the Government I would say of the increase due to irrigation, 25 per cent should go to Government, 25 per cent to the landlord, and 50 per cent to the tenant or cultivator All irrigation water should be sold by volume.

At present much more water is used than is good for the crop Very frequently the crop yield is decreased by the use of too much water, and the ripening of the crop delayed Again water at so much per acre leads to very bad farming Very frequently land is watered when it needs to be cultivated and no water given

Between waterings as a rule no cultivation is given, this is bad for the soil which needs stirring; for the crop roots which need aeration Because of lack of cultivation between waterings there is a very serious loss of water due to surface evaporation. Much of this would be prevented by cultivation. If water were sold by volume better methods would be employed In general I would say that if water were sold by volume its duty would be about doubled, that is, by a proper use of measured water, the irrigated area could be twice what it is now. This is of national importance and it is well worth educating the people to obtain the end desired. To increase the price of the water and to measure it would be a great benefit to the tenant.

Q. 16—I think it is right that the State should take part of the increase in the value of land, where the increase is due to State irrigation being introduced.

Take the case of the Lyallpur Canal Colonies.

Government sold the land to the tenants at Rs. 12 per acre Much of this land within one or two years was worth from Rs. 600 to Rs. 1,000 per acre. At least it was sold for this. There were no roads or schools, etc. If Government had taken say 50 per cent of the increased value in the first five years by annual

instalments all the amenities of civilization might have been provided for these colonies. Instead of this constructive plan being followed, the increased wealth has brought no corresponding benefit to the countryside. So much of the money has been spent unwisely on litigation, gambling and careless living, that in some cases the extra wealth has been more harmful than good.

Undoubtedly the idea of prohibition is growing, I believe that for India local option would be the best way of introducing it.

I believe that the rise in general prosperity due to prohibition will lead to the present sources of income (*minus* excise revenue) being adequate This has been the experience of some parts of the United States with which I am familiar.

Q 96—I define a tax as a compulsory payment made to Government which enables Government to carry on. Its purpose is to provide the overhead charges of Government. That is, it is not paid for any specific service rendered like the telegraph or canal service, but is to provide the general expenses of Government which it is frequently very difficult to assign to any one particular head Also to provide those national and community services like roads and police and army which are for general use, well-being and protection

I define rent as money paid for the use of land. It arises owing to the fact that land remains constant, while population increases The increase in population increases the pressure on the land, other things being equal, land of good fertility or near markets pays more rent than poor land or land farther removed from markets

"Rent does not enter into cost of production" I hold it to be true, but, and here confusion frequently arises, rent must be paid out of what is produced. That is, in order to pay rent, land must produce more than the bare cost of production and out of this surplus rent and profits are taken. The statement is frequently made that Government takes 50 per cent of the produce as land revenue I know of no place in which this is true in India to-day What Government does is to assess the rent, and of the rent paid to the landlord Government takes 50 per cent For example, a field may be assessed a rent of Rs 5 per acre This the tenant pays to the landlord Government takes Rs 2-8-0 The field may be in sugarcane, potatoes or cotton where the profits are from Rs 50 to Rs 300 per acre and the gross value of the crop from Rs 150 to Rs 1,000

Is Land Revenue a Tax or a Rent?

As I understand, land revenue in India, is not a true tax, it is that part of the rent which is taken by Government It is not a true tax because it is paid for a specific service The rent is divided into two shares, one part held by the landlord, one part by the Government, I cannot speak of the different systems of India I speak of the settlement system in vogue in this district.

Q 97.—In my opinion there is a necessary division to be observed.

(*a*) Tenants with permanent rights.

(*b*) Tenants-at-will.

In the case of a tenant with permanent rights the rent is usually very low as compared with land of the same quality and situation in England or America I believe that in the case of nearly all permanent tenants the rent should be increased I know of cases where profits of Rs 50 to Rs 300 per acre are actually made or possible on crops of sugarcane, potatoes, etc, and a merely nominal rent is charged. This land could and ought to bear a larger share of the public burden

In the case of the tenant-at-will there is usually rack-renting. Rents often go beyond what they should Here the landlord gains heavily, Government ought to take a much larger proportion of the rent paid by tenants-at-will than it does in the case of fixed tenants.

If, in [illegible] so much of the rent as would lea[illegible]it, and land held by the tenants w[illegible] then there would be less desire on [illegible] getting permanent rights,

and more casual tenants would become tenants with permanent rights. This would mean a large increase in revenue to Government This would lead to a gradual improvement in agriculture, because of the certainty of tenure. The prosperity of the cultivator is not seriously diminished by the land-tax or rather land revenue

The prosperity of the tenant is much more adversely affected by other factors than by the rent he pays (except in the case of rack-rented tenants-at-will).

The list of these other factors is a long one and would require a book. I enumerate a few :—

(a) The exactions from the tenant which are usually illegal and of which it is very difficult to get evidence that would secure a verdict in a court of law This I regard as the most serious factor of all I refer to the many devious ways which agents of the landlord, petty officials who have to do with land records and collections, water distributions, police, court peons, etc, have of extracting money from the tenant He has to pay or suffer, and he usually pays The combination against him is too strong for him to combat successfully.

(b) Then there are a series of handicaps that arise in the beliefs of the people These beliefs are sometimes religious

1 There are far too many cattle for the food supply The lack of food reduces the size and value of the cattle There are too many cattle for the work to be done. See note in report of Cattle Conference, Bangalore, 1924 Lack of food and refusal to eliminate the unfit has led to the Indian cow giving the least amount of milk of any cow on earth, and because each individual cow produces too little milk to pay for her board, over 90 per cent are an economic loss to the country Indian milk is the most expensive to produce

Cheap milk is not taken from low producing cows but from high producing cows, one cow giving ten thousand pounds of milk a year yields a larger net profit, than the sum total of the profit from ten cows giving three thousand pounds each

(b) 2 Then far too much arable land is left for grazing land Now as a matter of fact, in an ordinary grain rotation of crops, much more fodder is grown on cultivated land than on pasture land Pasture land in the temperate zone is a far different thing from pasture land in the United Provinces where for three or four months there is plenty of rain and therefore of grass The rest of the year there is very little grass To properly feed cattle silos are indispensable in Northern India to-day

3 Then the *guala* is a person who knows more ways of ruining a good cow than any other man on earth He insists on the calf sucking the cow, which is bad for both He refuses to milk one cow completely dry at each milking thus shortening the lactation period, the milking function being stimulated by use and being retarded by incomplete milking

(c) The attitude of the people towards all animal life Very frequently animals that are very destructive to crops are not effectively driven off or destroyed Monkeys, wild pig, deer jackals, foxes, porcupines and rats All take a very large toll of crops With concerted action most of these could be destroyed from the densely cultivated areas

(d) Another class of adverse elements is the lack of fences for fields Without fences crops cannot be properly protected against cattle and wild animals

The lack of roads is a most serious handicap in marketing crops The extra cost of marketing, where there are no proper communication, falls back on the producer and greatly reduces the price he should receive for his goods. The total loss per annum due to this cause would much more than pay for a system of good roads.

The fragmentation of holdings is too obvious to labour, but that it is a most serious handicap on the cultivator is not too often remembered The size of the holding is seldom sufficiently large for the use of labour saving machinery and

on these small holdings upon which a good living could be obtained by intensive methods of agriculture, only extensive methods are employed. With extensive methods the land is asked to carry an impossible burden.

Further the land is asked to provide a whole-time living for a very large number of men and animals who can work on it only part time The remedy is the development of rural seasonable industries for both men, women and oxen so that they can be gainfully occupied for a portion of the time the land does not require their services.

Q 108.—*Re* Octroi My personal experience of this tax is that it should be abolished and a tax on land values be instituted.

I object to octroi :—

(*a*) Because it restricts trade.

(*b*) It is evaded by dishonest persons and therefore puts honest traders at a disadvantage.

(*c*) Municipalities that have it seldom get anything like what they should.

What happens at the Jumna Bridge octroi post is this in the case of bricks If I send my own carts over with bricks I have to pay the full octroi tax If that were all I should not object but my carts may be kept waiting for hours until some octroi official has time to count the bricks He makes it evident that unless I pay him a gratuity I shall have trouble The usual method is this, a brick carter goes up to the barrier and pushes two pice forward and says, "Babu, please give me a ticket. I have, say, 500 bricks on my cart." The ticket is at once written.

Now in general the carter understates the number of bricks, says 500 instead of 900 with the result that he pays less than the legal amount due, and the municipality receives from 50—30 per cent less than it should, but the octroi staff gains an amount by fraud All engaged in this business are keen on not being caught I believe, however, I could produce witnesses who would substantiate all I say on this point

It is also true that other commodities enter the city in the same way.

Because of the opportunity presented by the octroi impost the police and bridge guards hold up nearly every head load that comes across the bridge.

A stick or two of wood, a few stalks of fodder, a few cowdung cakes from each one, makes up a substantial amount each day It is the poorest who are robbed the worst

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Mr. Sam Higginbottom gave oral evidence as follows :—

The President. Q—Mr. Higginbottom, you belong to the Presbyterian Mission?

A.—Yes, Sir.

Q.—You began life as a professor of economics and afterwards you applied what you learnt from your teaching to agriculture Now you are a practical agriculturist?

A—Yes, Sir.

Q—Would you tell us what you believe to be the cause of the poverty of this country?

A.—There are several causes for it. They can be grouped under different heads Low production is one, I mean low production as compared with other countries It is due to ignorance on the part of the cultivator,

and to bad methods. It is also due to the fact that very few people, including the Government, regard agriculture as an investment. Most of the people who have anything to do with agriculture, including Government, think that they can take much out of the land without putting anything into it Then there are certain social customs of the people that lead them to poverty. One is undue regard for animal life. That is very harmful to agriculture and I think by far the worst economic loss is due to the surplus cattle in India Then there are the monkeys In the Cattle Conference held a year ago in Bangalore it was found out that the surplus of cattle costs India 4 9 times the land revenue.

Q—Can you tell us the basis of that calculation?

A.—It is worked out in the report of the Cattle Conference. I worked it out like this You take X as equal to the acres cultivated. This requires Y cattle to cultivate it In this way the number of surplus cattle in India can be calculated I took all my figures from the blue books of Government statistics. You have the number of bovine cattle in British India, presumably half males and half females. The total number of cultivated acres in British India is given in the same book Allowing 16 per cent for breeding bulls and for cattle too young or too old for work, you will find after you have given every possible allowance, that you have a certain number of surplus animals costing Rs 6 per month each for food.

Q—Do they get any food?

A—Yes, they cannot live on air

Q.—Do not the greater number of them graze in public grazing grounds or in forest reserves where the fee may be only three annas a head?

A.—Well, it is a wrong use of public resources, that is all That means the rest of the country is paying for their upkeep. It is a sheer waste of public property Where an animal works in a village, at the present price of fodder in the United Provinces it costs Rs 8 or Rs 9 a month They are fed only for 60 or 80 working days in a year. The rest of the year they are turned loose and do not get much to eat Even then the average would work out at Rs. 8 or Rs 9 a month for the upkeep of the cattle Rs 6 a month is therefore very low In the cities it costs something between Rs 10 and Rs 20

Q—Would you then condemn the forest policy of Government which allows grazing at 3 annas a head?

A—Certainly I would It is most damaging I would put a sufficient charge on grazing so that the value of the grass consumed by the cow would be charged for If this grass is cut and baled it has a value Moreover, except in some cases, the grazing is overdone with the result that pastures do not yield anything like the amount they ought to If the grazing were regulated, you would get much more yield Furthermore, it is the cultivated land that is producing the largest amount of food for the cattle Your ordinary grazing land is only good for two or three months a year The straw of the cultivated crops provides more fodder for the cattle than when the land is left in grass to provide food for cattle

Q—Do you object to the whole policy of public grazing grounds?

A—The grazing is permanently injured, then there is the spread of epidemic diseases and the impossibility of keeping up the quality of cattle owing to promiscuous breeding When there is abundant grass the cattle do very well, but on all these grazing areas almost invariably there are 3 or 4 months when there is an insufficient amount of food The mature animals can stand this, but the immature animals deteriorate and they never make it up. They are permanently dwarfed

Q—As a scientific agriculturist would you condemn the present policy in respect of grazing fees also?

A.—Yes, I would. If the grass is put in silos it can be kept for 10 or 12 years. In the interests of the cattle I would advocate the policy of cutting

the grass and baling it In the United States they reckon that it requires 20 acres of grazing to supply grass for one animal. In South Africa it takes 12 of grazing acres to supply grass to keep one animal. In South Africa, they have the best grass in the world. They would never attempt the Indian system of so many cattle to such a small area.

Q—From the taxation point of view, would your policy be to reduce the number of grazing areas?

A.—I would certainly raise the price of grazing areas

Q—You also said that you would calculate the grazing fee on the price the grass would fetch if sold?

A—Yes, *minus* the cost of cutting and baling If you harvest grass there is the cost of labour, but if cattle graze it, you save this

The Maharajadhiraja Bahadur of Burdwan *Q*—There are certain Government forests where the grazing fee is three annas This is an income to Government which the Government would not get otherwise. Then there are tracts where perhaps grass bales would not sell There are no markets?

A—It is not the market which is wanting, but it is lack of transport It will cost more to get it out than it is worth because of bad roads

Q—Therefore baling would not pay Government. In those tracts you would not stop grazing?

A—In each of these places I know there are more cattle than can be kept in good condition It is better to have a smaller number of cattle in good condition than a larger number of cattle with insufficient food, with the result that they are stunted in growth and therefore worthless

The President. *Q*—What I understand is that you would draw a distinction between big forests at the back of beyond and grazing grounds adjacent to cultivation?

A.—Yes I would always distinguish the big forests and the grazing grounds in the cultivated area. But even in the forests there are many cattle which have little economic value Where cattle are kept merely for their hides and manure, they are a tremendous drain on the country. When I went to the fairs in Allahabad and Cawnpore districts I found that the cost of an ox three years old is very much less than I could produce him for. I at once came to the conclusion that the man who bred the animal never looked to the economic value of it as he never realized what he had spent rearing it So I used to put this question to my students in the dairy farm, "Are you going to keep the cow or is the cow going to keep you?" At present most of the cows are kept by their owners, at least 95 per cent of them. They are an economic loss to the country, measure it in any way you like.

Then again the social customs of India are a burden on the country. Take the religious mendicants of India. In dealing with another man's religion I always feel a delicacy because I can talk only of the economic aspects of these things I am not desirous of quarrelling with my neighbours with regard to their religion. My own experience of Allahabad is that these religious mendicants are a far greater economic drain on the country than any other group They not only do not work and are not productive in an economic sense of the term (I don't want to say anything about the religious side of it) but also I see that these people have their brotherhoods and they control an enormous amount of capital

Q—You began by saying that the production is very low owing to the deterioration of the soil?

A.—It is due rather to misuse of the soil. The amount of phosphorus in the soil is frequently the limiting factor in crop production The soils in India would follow the law of increasing returns if a certain amount of manure was put

into them, but with the lands I am familiar with, decreasing returns become the rule. The bad system of rotation, the burning of manure and selling of bones are all partly responsible Again in our farm we plough during the hot weather so that whatever organic matter is on the ground may be ploughed in, but if it is not ploughed in before the rains, the whole thing is lost. Year after year the Indian cultivator follows the same method He knows the defects but he is helpless with his little wooden plough.

Dr Hyder. Q —Is it due to over population?

A —Here is a little book written by Dr. Das in which he makes the astounding statement that 45 per cent of the culturable fields in India are not cultivated. I know that in certain parts of India there is too much population, but that is not the cause for the wrong system of agriculture. In America we recognize two systems, the intensive, in which the object is to get the largest yield per acre, and the extensive, where you aim at the largest yield per man. Now in India there are lots of lands which ought to be cultivated intensively, but are in fact cultivated on the extensive system As a result you get a very low acreage production

Q —No doubt you can cultivate either by means of machinery or an ordinary plough But the cultivator in India unconsciously compares the costs He finds that manual labour is much cheaper than the cost of machinery. Therefore he relies on manual labour rather than on machinery.

A.—There are different reasons for it The little Indian plough actually takes more time and power to pull than the improved little English or American plough. Moreover the Indian plough can only plough after the ground has been soaked, but the little improved plough can work even when the soil is hard We have taken country bullocks and after feeding find they can pull the iron ploughs very easily. Every day we can spare our bullocks we hire them to our neighbours But in India the cattle are too many and they are not fed properly. They cannot pull the improved American plough on unsoaked soil unless well fed

The Maharajadhiraja Bahadur of Burdwan. Q —You told the President that from the point of view of manure you think that the bone manure which has got phosphorus is the best kind of manure

A.—Most of the phosphorus is found in the grain India exports grain, and does not put any phosphorus back into the soil, which can best be done by the use of bone manure Thus there is a perpetual drain on the soil which does not get it back.

Q —You know there are different kinds of manure which are demonstrated in farms and shown to the cultivators, it is a fact that you do not want a Hindu cultivator to put in bone manure from the point of view of religious sentiment, that being so, what is your nearest substitute for it for the Hindu cultivator?

A —Well, there are different kinds of phosphatic manure I think before the war there was a German firm which was manufacturing phosphates from rock In the Siwaliks Captain Fred Pogson claimed there were large rock phosphate beds I am not sure whether the Agricultural Department has analysed this question or have sufficient knowledge of it I have always urged that other sources of phosphorus should be investigated I had experience in the Gwalior State when I was Director of Agriculture there The State prohibited the export of bones, and wanted that they should be used for manure but a very large number of Hindu farmers would not use it When I tried it in the State farms a good many people complained about the use of the bone manure In dealing with these things you cannot have a clean cut economic issue, because you have these religious sentiments But in discussing these things with our students many of whom are graduates, in the Imperial Dairy course they tell me that some of these things are not religious, but are due to traditional social views It is a kind of superstition If it is so, it is very hopeful If it is religious, I cannot argue about it If it is a wrong social custom, then we can bring pressure to bear upon it

You take out phosphorus in the form of grain and don't put it back in the form of manure This causes a very great loss I think that agriculturally India is the most extravagant country in the world. It wastes matter which would make any other country rich.

Q—You think there is no deterioration of the soil?

A.—You cannot exhaust the soil, you can only reduce it to a point beyond which you do not get an economic return That is proved by the experiments made at Rothamstead where they have grown wheat after wheat on the same piece of soil for eighty years without manure and their average yield is higher than the yield for the whole of India.

Sir Percy Thompson *Q*—How is it done?

A—They do it by ploughing, the stubble is ploughed in At least in some parts of India the ryots collect their stubble and leaves and have a glorious *bonfire* They care more for getting warm for a few minutes than for applying manure to the fields. They do not know the value of this. Some of these heaps which are burnt for fuel contain a lot of fertiliser In India you may see a man wasting on a fire manure which would cost him five rupees if he went and purchased it in a shop

The President *Q*—What is the effect of all this on the taxable capacity of the cultivator?

A.—The potential taxability of India is very great The present tax ability is low, but I think it is higher than is generally imagined

Q—Would you apply that to any particular taxes? What is your experience of the burden of the land revenue? How does it compare with the economic rent?

A—It is usually much less than the economic rent But land revenue in general is lower than it ought to be.

Q—Surely it is only a small fraction of the economic rent?

A—In the Ricardian sense it is The amount of money paid by the cultivator to the landlord of which Government gets 50 per cent is very much less usually than the economic rent

Q—What amount of land revenue do you pay on your lands?

A—Some of our land was worth four annas an acre when we took it But now I have been offered Rs 20 an acre This land has had no manure, it was merely ploughed deep every year before the rains The economic rent on some of the lands which have been manured with bones, would be Rs 50 or so.

Q—What is the land revenue you pay per acre?

A—I do not suppose it is more than Rs 4 or Rs 5 an acre. I cannot tell you the average The average must be below Rs. 4.

Q—About a tenth of the economic rent?

A—Yes, if the land were improved.

Sir Percy Thompson *Q*—Suppose you have land, the economic rent of which is Rs 50 which only pays Rs 4 an acre as land revenue. Would you take that Rs. 4 as a tax at all? Is it a burdensome payment?

A—It is not Land revenue in India is a burdensome payment only when the holding is smaller than the economic holding and the sooner we can get rid of the uneconomic holdings the better, because they have to be subsidised some way or other by other holdings. By an economic holding, I mean a sufficient amount of land cultivated in an ordinary way to pay the land revenue and give the cultivator a living If a man has got less than an economic holding he has got to make his living by some other means, and must keep to live on what ought to go to the State

Q—May I assume that you have economic and uneconomic holdings just because of fragmentation? Supposing you reduce the land revenue because you think that a man cannot live upon his land, don't you encourage further fragmentation?

A.—Exactly. I feel that legislation is necessary to abolish all these uneconomic holdings. The present legislation in India at present seems to me to encourage or put a premium on bad farming

The President. *Q*—Can you give us instances of how the present legislation encourages uneconomic holdings?

A.—The present state of the law allows this fragmentation and allows the uneconomic holdings to multiply. The number of uneconomic holdings is so great, that where the land has to carry an impossible burden somebody has to suffer.

Sir Percy Thompson *Q*—I have land and pay four rupees as land revenue and you are a barrister with no land Are you or I in a position of advantage?

A—Certainly you are in a position of advantage.

Q—In that particular instance a man who is not paying economic rent has an advantage, it is not a burden?

A—No, where the holding is too small to give a decent living, the economic rent may be fifty rupees an acre, but the four rupees which is actually paid as revenue may cause the man to suffer, that is the fault of fragmentation. But it is due to their own action Another difficulty is, that there is no proper system of village industries to take care of the surplus people. Moreover in India, at least in Northern India, (because I have no experience of all parts of India) the cultivator's real working days during the year do not amount to more than 50 per cent of his time so that he has to earn enough in half his working time to support himself throughout the year That is also one of the difficulties with the cattle The average number of working days for the cattle is 80 (except for well irrigation where it is 120), but the animal has to be maintained for the whole year

Q—You have to raise Rs X in taxation. If you spare the land because, owing to the contractual relations of the parties the holding becomes uneconomic, *i e.*, reduce land revenue, you have got to get the money out of industry. But then you stifle your industries and do away with the possibility of the surplus population of the land going into industries.

A.—Yes. For the amount that is produced you have got a very low average production per human unit as well as per acre unit

The Maharajadhiraja Bahadur of Burdwan *Q*—In reply to Question No. 97, you have mentioned that a distinction should be observed between tenants-at-will and tenants with permanent rights From what you have written in that paragraph, may I understand that tenants with permanent rights are in many cases responsible for these uneconomic holdings?

A—You say very rightly that the tenants-at-will are those who are usually rack-rented, the landlord tries to squeeze rent out of them and if they have an inclination to keep the land they naturally submit to the rack-rent

In the eastern part of the United Provinces one third of *the tenants are* tenants at will, that means they do not cultivate the same land more than one year and that goes on because there are more of these tenants than there is land to go round You thus get true rack renting These tenants usually spend part of their time working for their landlord

Q—You say that rents should be increased The tendency of tenancy legislation in India at present is to create more tenants with permanent rights and reduce tenants-at-will That is the underlying principle.

A.—I think it is right

Q—I know it is right, but how will you protect the tenants-at-will without having the rents of the occupancy tenants increased? In *the Legislative* Councils whenever you have tenancy legislation, the tendency is to create more occupancy right tenants which means giving *more permanent* rights

A.—There are two sides to this question. One is that over some parts of India you have altogether too many landowners, who do not work and who have to be supported from the land adding to the burden on it

Q.—Would you advocate that there should be more tenants with permanent rights and if you do so would you also advocate that their rents should be so increased that there should not be the same desire on the part of the landlord to rack-rent the tenants-at-will?

A.—In the case of tenants with permanent rights the landlord cannot legally get more than a certain specified sum, but in the case of the tenants-at-will he can get as much as he wishes.

Q.—What I understand from you is that you would prefer the tenant with permanent rights to have his rent so fixed that the landlord would be able to make more out of him and that would not drive the landlord to rack-rent the tenant-at-will.

A.—There is a tremendous difference The interest of the landlord seems to be always to prevent the tenant at-will becoming a permanent tenant, probably because once he becomes a permanent tenant the landlord loses his hold on him.

Q.—If the tenants with permanent rights had their rents increased to the extent that the landlord would not have the same desire to rack-rent, then do you think that things would be balanced? In other words, don't you think that there is a distinct effect in the present day tenancy legislation to sacrifice tenants-at-will? I mean to say that there are certain classes of politicians who are desirous to give occupancy rights without considering the effects of it on the tenants-at-will

A.—The fact that rents are kept below the economic rent by legislation should not deprive the State of its share.

Q.—Is it not a fact that the present day tenancy legislation really legislates to create more uneconomic holdings?

A.—I should think so

Sir Percy Thompson *Q.*—The essential point which the Maharaja has referred to is that the fact that the occupancy rents are in many cases below normal should not deprive the State of its revenue?

A.—The Maharaja's question is "would the landlord have the same desire to squeeze all he could if occupancy rents approached the economic rent" I do not know that. His desire might be to get all he can But that must be stopped by law, if it finds an outlet with the tenant-at-will. I might also say that regarding some of this land legislation, I am assuming, that the landlord will not give money to the public services of the countryside to the extent to which it is given in other countries The landlords here regard their income from the lands as personal and to be used for any purposes and in any way they wish, without considering the sources from which they get it. I am in favour of Government getting more revenue from them because we find very few landlords who know to spend their revenue properly. If we found landlords who will set aside a portion of their income for improving the roads, etc, which would increase the value of the country, the case would be different. What I have observed is that the landlords and the tenants think that their interests are not identical. From what I have seen I can say that usually they are at eternal warfare.

Q.—In the first place the landlords in the past have had no idea what these benefits would mean to them and consequently whatever inclination they might have had, they have lost it now; the State is levying all these direct taxes for specific purposes. The State levies education cess, road cess, etc. The landlord therefore finds that he is roped in for all these things, why should he worry himself? Don't you see that all these things are putting a brake on the landlord desiring to do anything?

A.—I do not know that.

Dr. Hyder—In page 356 you say: "If, in all cases of tenants-at-will Government took so much of the rent as would leave the landlord with only his economic rent ...."

A.—What I should have said there is "his part of the economic rent".

Q—No one can take more from the land than the economic rent?

A.—Not in the long run.

Q.—So what can be taken from the land is economic rent and this can be taken either by the landlord or by the Government or by the tenant or divided in some proportion?

A.—The economic rent is a true surplus and how it is to be divided is a matter for legislation.

Q—So if any charge were to be made on the land which went over and above this economic surplus this would not be borne by the tenant, but it would have to go into the cost of cultivation?

A—It would be added to the cost of production, but it would not make any difference in the price that the man would get because price is not determined by the cost of production

Q—Is not the price of a commodity, say, wheat, in any market determined by the cost of production on that land on which the cost is the highest? Therefore, the difference between the cost of production and the prices is a profit And if there is some wheat that just comes into the market and barely pays the cost of production, it will not be profitable But taking the circumstances of any particular market the price of wheat would be determined by the cost of production on the land which is on the margin of cultivation

A—In the long run, over a long series of years, I think the cost of production does have a relation to the price; but at any given time it is not so. The farmer produces wheat and does not know what he is going to get for it.

Sir Percy Thompson *Q*—The price is determined on cost of production in the land on the margin of cultivation in the long run?

A—Yes

Q—More than that, if rent is charged, assuming that the margin of cultivation remains the same, the loss will have to be borne by him?

A—Yes

Q—But it will not have the slightest effect on prices?

A—No The price of any commodity at any given time in a given market is not determined by the cost of that which is produced at the greatest disadvantage

Dr. Hyder. Q—In your reply to the question whether land revenue is a tax or rent you say it is not a tax because it is paid for a specific service What is the specific service?

A—I understood a tax as a sum which was taken by the Government not for any specific service But while it was not taken for a specific service, when it goes into the hands of the Government they might spend it for a specific purpose. If I had thought a little more, I would not have put it in this form. Rent is taken for the use of land and therefore it is not a tax A tax may be defined as something which is paid to the Government not for any specific service, but to pay for the overhead charges

Sir Percy Thompson *Q*—It is not a true tax because it is paid for the use of a valuable asset Would that be right?

A.—Yes. But it needs some qualification. I think I had said already earlier in my written statement: "I define a tax as a compulsory payment made to Government which enables Government to carry on. Its purpose is to provide the overhead charges of Government. That is, it is not paid for any specific service rendered like the telegraph or canal service, but is to provide the general expenses of Government which it is frequently very difficult to assign to any one particular head" I continued this idea when I gave this answer to questions 96 and 97

The President. *Q.*—You say that India is one of the least taxed countries on earth whether measured by percentages or totals? That I find in your book.

A.—That statement is the result of my study—that the *per capita* taxation is the least of any civilised country in the world for which I could find records. That was in 1919

Q.—Have you brought these figures up to date?

A.—I am sorry I have not

Sir Percy Thompson *Q.*—Was that before the war?

A.—They were figures relating to the period before the war chiefly.

The Maharajadhiraja Bahadur of Burdwan *Q.*—Do you still adhere to those figures, or do you modify that statement?

A.—Nothing that I have seen till now would make me modify that statement. On this matter of taxation I firmly believe that India needs much heavier taxation in order to become prosperous I assign a good deal of India's backwardness to not being taxed he
nized capital for development
cumulative effect of a good
would contribute to larger pr
does not grow crops on it It is too far from a market. Again when cotton comes to Indore from Sardarpur it comes 20 miles by pack animals and 120 miles by road The cost of getting that cotton from the field on which it was grown to the rail head in India is greater than the cost of taking it from the rail head to Manchester Now if you had good rail-roads the farmer would get much more for his cotton, because he has now to pay for such costly transport

The President *Q.*—Would you enhance the land revenue?

A.—Certainly. Because, if the land revenue were enhanced you could give roads you could give those services for the lack of which to-day the cotton cultivator is held back.

Q.—How do you regard the land revenue as a system?

A.—That is a great difficulty. There seems to be so many systems. The system in one province is different from that in another

Q.—How would you compare this land revenue with the American property tax?

A.—The American property ta[illegible] what it is I think that principle [illegible] And I think there is uncertainty in [illegible] places. From what I can gather from m[illegible] not as equal as it is in other places. The present variety of system tends to inequality.

Q.—What about water rates? Do you regard them as taxation at all?

A.—Certainly not.

Q.—Do you regard them as adequate?

A.—I think the farmer is getting something very valuable for a small amount of money.

Dr. Hyder. Q.—Do you suggest that the system of water rates should be based on volume?

A.—Yes.

Q.—What factors should be taken into account if this system is adopted? So much water for so much price? Then the cultivator may say that the price for so much quantity is too high or too low. How do you meet that?

A.—The reason why I advocate water being sold by volume is that it would lead to better farming The result of the present practice of giving a man, on his paying a flat rate, all the water he wants, is that it reduces the annual yield of the crop and reduces also the quality of the crop. You will also get a poorer quality of grain That is the point These wonderful irrigation systems which we have in India are a public trust and the greater the number of the people that can benefit by them the better for all concerned Through the careless use of water they will only irrigate, say, 1 million acres, while with a wise use of water they could irrigate 2 million acres I have never yet found a farmer who wanted to change irrigated land for unirrigated land I take it that, no matter what the rate may be, in reason, the man will always prefer to have land with water on it rather than take equally good land without irrigation at lower rates. There is a certainty in irrigated land which a farmer greatly appreciates.

Q.—With regard to the sale of water by quantity, what are the factors which should be taken into account in fixing the price of water?

A.—There is the cost of production of the system What it costs to give him the water, that would be one element Another thing is this You have got land 4 feet above water level What is the value of that land compared with the land 4 feet below water level that gets the water? On one you get anything from Rs 100 to Rs 400 per acre profit, while on the other you may get only Rs 4 It is the water that makes the difference.

Q.—Take the case of the land on which you get Rs 400 profit Now the Government adopts the volumetric system and the cultivator is charged at so many rupees for a cusec He says that is too much Then on what principle should this matter be explained to him?

A.—In the beginning you would have a good deal of difficulty Perhaps it would have been easy if there had been a properly organised Agricultural Department By this I do not cast any reflection on the present department It has been treated very badly If to-day we had a thoroughly organised Agricultural Department in India, we could demonstrate to the farmer the best methods in agriculture The way to show the farmer the value of water is to take two pieces of land, irrigate one with flooding and the other with measured quantities of water and proper cultivation in furrows Take the cost of production in both the cases and the outturn In the second case you would find that with 30 to 50 per cent of the water you had larger returns The Economic Botanist to Government has published articles on that subject We have tried and found that the present flooding system of irrigation is the most extravagant system

Q.—The Government will have therefore to take into account the fact that the man who makes an economic use of water will get a larger return So the price for a certain quantity of water would be based to some extent on the prosperity of the man?

A.—Yes Of course, just now scarcely a single tenant that I know of knows any other system of irrigation If you could only show them the advantages of the furrow system, they would avail themselves of it In the beginning you would have some difficulty But gradually, if you have trained demonstrators and have demonstration farms, the farmers may be persuaded to go there periodically and take advantage of the improved methods

Q.—From the technical point of view, you do not see any difficulty as regards the adoption of this system of selling water by quantity?

A.—I think in the first instance there would be great opposition.

Q.—How should the water be measured?

Baba UJAGAR SINGH BEDI, M.L.A., Rawalpindi, was next examined.

Written memorandum of Baba Ujagar Singh Bedi.

I should only like to confine my remarks with regard to the clause 6 which deals with the revenue, of the letter No. 76-T, referred to above, and clause 15 in its sub-heads, 1, 2, 3, 5, which deal with the irrigation subject.

Before I launch on the whole subject, I should first like to discuss the principle of revenue on which it is demanded; namely, the theory of the State landlordism, with its demand of 50 per cent out of the gross income so assumed

1. It would be said that the demand of the ancient rulers of this country was the half of the produce of the land from the tenant or the 50 per cent income so derived by the source of agriculture, hence the government of the modern days can claim the same, but the position is not analogous. The ancient rulers, under no circumstances, sold the lands; they gave the lands on two conditions

(1) Either a boon or a *jagir*, and (2) on the condition of tenancy.

Under the first condition, no revenue at all was claimed, in other words, it was given as a *bakhshish*, and in the latter case the cultivator of the land was regarded as a tenant, and naturally half of the produce so derived was demanded Since the present Government sells the land at a very high price in auction or otherwise, therefore, if we take it dispassionately, the Government loses the right of landlordism, in other words, it is transferred to a buyer

At any rate, the demand of the 50 per cent is, under no circumstances, equitable, because if we take into consideration strictly the principle of State landlordism, then the same principle ought to have applied into the cases of buildings, and the land under the buildings, in other words, to demand the half of the income of the buildings erected on the land, which is not the practice now, therefore it is obvious that the theory of State landlordism is not universal and does not hold good, but it is only in the case of agriculturists, which further shows the differential treatment with one sect of the settlers on the soil

2 There is another argument against the demand of 50 per cent :

(a) If we take into account the present minimum and maximum sale values of the land, then the average price of a square of land would be about Rs 18,000, thus the value of an acre would be something about Rs 725 If we take the interest at the rate of 9 per cent per *annum on this sum, then the interest per annum for an acre would* be Rs 65-4

(b) *Now we leave it entirely at the discretion of the Committee whether* there remains any further necessity for the imposition of the revenue on the land, which is sold at so high cost and the interest of which is alone more than the demand of the 50 per cent; therefore, they deserve that they should be excluded entirely from this revenue, since they have already paid this heavy interest, which alone may be regarded as a tax.

But if at any rate, they cannot exclude it from the operation of the revenue, then the demand should be minimised.

(c) May I point out here another argument which further supports my contention against this heavy demand. A man, who invests his money

in other trade, has to pay the taxes out of his net income at the rate of one anna or so in a rupee, in other words, 1/16th of his net earning, but immediately if he stops all that business and invests the same money into the land, the money so invested is liable to pay the one-half of his gross produce, which now the Hon'ble Committee will realise, how far this claim is feasible and proper. Under the circumstances, I have emphatically urged that this demand, if it is not entirely abolished, should be minimised

3 Before I conclude this subject, I should like to say something with regard to the present settlement

Although the soils are getting poorer and poorer by the constant tilling and cultivation and are yielding lesser and lesser returns year by year, yet the settlements after a decade or so raise the revenue, as if the lands were getting richer. I cannot understand this principle

(a) I would propose that there should be permanent settlement throughout British India as in the case of Bengal, or at least it should be fifty yearly, with its minimum demands.

(b) These repeated settlements are not equitable when side by side, and simultaneously the permanent revenue of the land is being increased with a view that lands are supplied with canal water, and on the other the water rates are so heavily being enhanced The existing of these two incompatible principles cannot be vindicated There fore, I would suggest that there should be one established principle on the land The land tax should entirely be abolished, and where ever there is canal water supplied, only the canal rates may be levied, and the other parts of the country, which are not supplied with this facility, might be asked to pay the nominal land tax

(c) I would not deprecate the present process of collecting the revenue, with the exception that the demand should be minimised and settlement should be permanent, as in the case of Bengal

4 I will first discuss now the question of water rate which is no less harassing and anomalous

(a) The crop which does not reach the state of ripening on account of the paucity of the supply of canal water, is not excluded from the water rate

(b) The land once assessed for the canal water is reassessed in the same season and for the same used water known as *zaid kharif* or *ghas* which is inequitable and should not be recharged accordingly

(c) In certain areas there exists *khush haisaiti* which one cannot under stand what sort of tax it is, whether it is a water assessment or it is regarded as a land revenue If it is regarded as a water rate then it must be known to the cultivator and should be regarded as such If it is a revenue, then it ought to have gone with the revenue There should be no third tax in the form of *khush haisaiti* One does not understand what this *khush haisaiti* means, because a cultivator pays already two taxes, one of his land and the other for his water, wherefrom this third tax creeps, in the form of *khush haisaiti*

(d) Although the crops may perish, yet the *khush haisaiti* of those so perished crops still exists As it does not establish any principle nor it is universal, hence it should be abolished

(e) I would suggest that the water should be once sold to a particular man according to his demand and the value of that water should be reasonably fixed according to his demand

(*f*) The principle of the remodelling of the outlet is objectionable and thorny, because if a man frugally uses water of the canal and thus draws the benefit both to himself and to the canal, and pays the water rate equally for such area; the question that he has cultivated more area than is permissible, ignores his such toil and disheartens him, irrespective of all his other labours, therefore I suggest that water should be sold according to one's demand If we adopt this principle, there will be a saving of an appreciable amount of money with doing away with the good deal of the irrigation staff engaged in this particular direction and money so saved may alone be regarded as an income of the revenue

5 Before I reply the questions enclosed with letter No. 97-T., I should now propose the alternative form of process to raise the revenue.

(*a*) First, I suggest, that there should be no permanent tax on land known as *jama mustkil* The arguments have already been advanced in support of my proposal The permanent revenue, that is, the *jama mustkil* might be abolished, and where there is a canal or any other source of canal water, the water rate might be increased according to the circumstances This will enable the Government to raise the tax for the water so supplied

In other parts of the country, which are deprived from this facility, there might be charged a nominal and minimum revenue in the form as it is enforced now, precluding the lands which turn barren or are left out of cultivation, or the crops of the lands which do perish or die on account of the seasonal calamities, but immediately if that part is supplied with a canal, the water rate should be applied and the permanent revenue may automatically die.

(*b*) The revenue paid towards the Central Government should be according to the even standard of the province. This will relieve one province, which is bearing the brunt of another province, as is in the case of the Punjab, Madras, and the United Provinces, and this will alleviate the burden of taxation on the land

6 Now I will deal with the questions one by one —

Q 27.—I would propose also to increase the salt tax, which will alone bring a substantial amount of revenue and will equally fall on the consumer, which in my opinion, every citizen of the country is entitled to pay towards his Government for the safety and tranquillity that he enjoys

Q 37—The super-tax should be entirely abolished. It was only a war measure and should automatically die

Q 39—I do not understand what are those agricultural incomes which escape taxation

Q 47.—This question I have already dealt with.

Q 97.—The tax is so heavy and high that people have resorted to other professions and are still trying to resort

Q 100—I refer to my suggestion No 5, part (*a*) in particular and others in general

Before I close the whole subject, I should like to submit that I will simply be too glad to reply any other questions which I am competent to reply, if asked at the time when I give my evidence before the Committee.

Baba Ujagar Singh Bedi gave oral evidence as follows:—

The President. Q.—You are a member of the Legislative Assembly?

A.—Yes.

Q.—You say that "the demand of the ancient rulers of this country was the half of the produce of the land from the tenant. They gave the lands on two conditions." May we know whom exactly you refer to?

A.—All the ancient rulers—those who preceded this Government.

Q.—You say that their demand was half the produce, was it converted into cash?

A.—No; not necessarily. Sometimes it was taken as produce and sometimes in cash.

Q.—You say that "the present Government sells the land at a very high price in auction or otherwise."

A.—Yes; at very high prices.

Dr. Hyder. Q.—Was not the rate Rs. 12 per acre?

A.—But the value of the rupee was different then. In those days a man who had Rs. 2 was regarded as a *soucar*.

The Maharajadhiraja Bahadur of Burdwan. Q.—When you say "Government sells the land in auction or otherwise," what lands do you refer to?

A.—I mainly refer to the canal colony lands.

Sir Percy Thompson. Q.—When the Government sold these lands, they were sold subject to the payment of the land revenue. Therefore, land revenue has had its effect upon the price. If the land had been free of revenue, the price Government would have got would have been greater.

A.—But the question is that everybody does not understand all these principles. Of course, they know that they have to pay some sort of tax. But the interest on the amount they pay is so heavy that there remains no need for any further taxation. Suppose they sell the land at Rs. 1,000 per acre. If you calculated interest at 9 per cent, it will amount to much more than the tax that is already there.

Q.—If the land free of land revenue is worth Rs. 2,000 and if you sell it for Rs. 1,000 subject to land revenue, you are making him a present of Rs. 1,000 if land revenue is abolished.

A.—Not necessarily, because he buys on the understanding that he gets profit. If there is no profit, he would not buy it.

Q.—He will use his own judgment. He knows that there is land revenue and he is prepared to give Rs. 1,000.

A.—But then conditions change. Suppose you sell the land to-day at Rs. 1,000 and the next day you raise the land revenue as well as water rates. If you leave it in the same condition as at the time of selling then there is no trouble. But after 10 or 15 years there is settlement. While the lands are getting poorer and poorer every day, you raise the land revenue.

The President. Q.—You say that "the same principle ought to have been applied in the cases of buildings and the land under the buildings."

A.—What I say is that if the State landlordism was real, they ought to have demanded half the produce of the land under buildings. They never do that.

Q.—You think that building sites should be taxed?

A.—No Sir, my contention is that since the Government have not claimed the half of the income on other things existing on land therefore the theory of State landlordism cannot be established

Q—Would you prefer a property tax, like the Australian or the American tax which is a tax not on the annual value but on the capital value? Suppose you take 1 per cent on the capital value of all property including buildings?

A—I cannot say off-hand. I have not studied it.

Q—You say 'half the produce of the land.' Gross produce or net produce?

A.—Gross produce.

Q—Surely it cannot be half the gross produce.

A—That is what they demanded. They did not think of net income. Because sometimes the land may not bring any produce at all yet one has to pay the revenue

Q—Is it not based on the net produce over a term of years?

A—No In certain areas one gets nothing, but still one has to pay the land revenue

The Maharajadhiraja Bahadur of Burdwan *Q*—You think that in the years he does not produce anything, the land revenue should not be realised?

A—Yes, I have dealt with it in my notes.

The President *Q*—You say that the soils are getting poorer and poorer, yet the settlements after a decade or so raise the revenue Is the yield actually decreasing?

A—Naturally See the census of this year or last year, it has fallen by 20 per cent. It is only natural that the land which is tilled every year will get weaker and weaker

Q—I think you can reduce the yield only to a point, but cannot reduce it further

A—No Sir. I won't accept this principle. The soil dwindles.

Q—You say that there should be permanent settlement throughout British India, as in the case of Bengal, or at least it should be for fifty years. Don't you know that the revision of settlement mainly depends on the prices of the produce?

A—They may take all these things into consideration but at the same time their postulate is that the lands are getting richer. The principle ought to be either they should claim the water-rates or land revenue Just imagine, Sir, what is left for the agriculturist. If the demand of land revenue takes away half of his produce and the rest is taken away by the Irrigation Department, what is left to the poor man? If a man earns Re 1, he has to pay 8 annas as land revenue to the Government and out of the other 8 annas he has to pay at least 6 annas for the water-rates.

Q—We have just heard that a man pays only Rs. 4 as land revenue for the Rs 50 he gets as rent for an acre.

A—No Sir. I do not think so.

Q—Even in the Punjab under the system of fluctuating assessment, you pay nothing?

A—No One has to pay. Even if he gets *tacavi* for one year, he has to pay the double of the amount next year. I do not know what is meant by fluctuating assessment I think they charge the rate which was fixed during the settlement When once it is fixed, the man has to pay that fixed rate

The Maharajadhiraja Bahadur of Burdwan. *Q*—Supposing in an area there are two bighas of land with different kinds of crops grown, and if one is

not cultivated, the man has not to pay any water-rate on it. That is what we understood from the Punjab Government, and we also understood from the statement made above that there is the remission of land revenue.

A.—There is no remission of land-revenue.

Q—What is the principle on which canal rates should be charged?

A.—This point may be discussed in another sub-committee if my principle is accepted The water should be sold to the cultivator.

Q—May I take it that some margin should be left, what sort of margin, say 10 per cent?

A—I won't put it in that form We should adopt that principle, in some other sub committee There will be another committee to decide what should be the margin, etc. I would only lay down the principle at present.

The President Q—I would lay before you one principle You have got a number of canal schemes and you should not base your calculation on the particular canal, but you should treat them as a whole and make the whole concern pay.

A—I do not object to that

Q.—You think the rates should be uniform?

A—Yes I think when the water is given to him and once it is given to him in a certain quantity, he ought to be charged according to the quantity, whether he derives any benefit of it or not

Q—Would you advocate the volumetric system?

A—Yes, according to the demand of the cultivator. I like the volumetric system I won't mind what the cultivator does with the water. He has taken a certain amount of water and must pay for it

Sir Percy Thompson Q—Supposing you get a wet season when people do not want much water Then it will be a loss to Government Payment to Government for water will be very small?

A—That is not the question Once you fix a size of the outlet, the water-rate may be charged whether he uses it or not At present, if I use water economically and irrigate more lands by careful use, they still reduce the outlet, but charge me the same water rates

Dr Hyder Q—Even in the years when he does not require the water, he must be charged?

A—I think so

The President Q—You may have many disputes about the distribution of water

A—Just possible, but some arrangement could be made to distribute the water through different outlets or channels

Q—Can you distribute it through a *panchayat*?

A—Oh yes I do not think the cultivators would object to it.

The President Q—It is also suggested to us that the rates should vary periodically with reference to the prices of the produce Say once in ten years or so?

A.—No, that is a wrong principle. It should be fixed for ever Once we fix it, we cannot expect the prices would be so fluctuating

Q—But they have varied enormously since the war There is immense variation between 1914 and 1924

A.—During the war there was a little rise in prices. If you were to change the rates, there will be so many expenses of realising and fixing the water-rates now and then. There will be many difficulties. It is better to fix it once for ever Once you give the water to a particular man, he will use it according to his discretion.

Q—We were talking about the assessment being fluctuating. There are multifarious systems but one common feature seems to be fluctuation?

A.—I do not know that. In my part of the country there is one fixed land-revenue, it does not fluctuate at all.

Q.—Then you mention *khush haisiati*, is it not being abolished?

A.—I do not know that, Sir. It is a very heavy demand from the point of view of the cultivator.

Q—It is said that so far as the Lower Jumna canal colonies are concerned, it is one rupee an acre

A—Now it is Rs. 1-4-0 an acre That is what we pay in Montgomery district Now there is an anomaly With regard to the water-rates, I am talking of the inundation canals in Montgomery district. The present system for *rabi* sowing is, if a man uses the canal water before the 15th of July for *rabi* sowing to moisten the land that water will be regarded and charged as if it were used for the *kharif* sowing and he will have to pay land-revenue for the grass grown by the water so used. Then the same area which he has moistened he tills and sows *rabi* on it. he has to pay *rabi* water-rate and *khush haisiati* on the same land and then in the month of January in the same plot if he sows *jeera* (the water stops in August, in the last week of August probably). The man who tills and sows this *jeera* with the well water, has to pay again water-rate and *khush haisiati* That means that on one particular plot, he has to pay three times water-rates and *khush haisiati*, in spite of the fact that he has used the canal water for one crop only This principle is anomalous. If a man uses the water in the month of July to preserve the moisture, the sowing of *rabi* commences in the month of September, so, for that sowing one has to make the land fit and preserve the moisture. Under the present system he has to pay three times for the same area

Q—You say revenue paid by the provinces to the Central Government should be the same What you mean is that taxes levied for central purposes should be at the same equal rates?

A—My submission is that there should be an even standard of contribution

Q—You consider that land revenue is at present unequal?

A.—I think so

Q—But land revenue does not go to the Central Government?

A—That I do not know. I think something goes out of it as contribution and if provincial contributions are totally stopped or reduced, it will naturally alleviate the necessity of raising taxes, which ultimately also falls upon the land revenue proportionately.

Q—Can you say the percentage of rental value of the land in the Punjab which is taken in the shape of land revenue? At what rate can you let land to a tenant at-will?

A—At present we give on the payment of two thirds of the produce

Q—You never give them on money rents?

A.—They vary in different places In certain places it comes to 10 rupees an acre In other places it comes to 15 rupees.

Q—Does it not go higher than that?

A—I have never seen it.

Q—What will be the land revenue per acre?

A.—In my place it will be about 2 or 3 rupees per acre

Q—About one fifth of the economic rent?

A.—Yes, Sir

Q—We are trying to arrive at a comparison between different provinces You say it is one fifth of the rent, but in other provinces it may be more or less.

A.—Yes It may be more or less

Q.—You propose to increase the salt duty?

A.—Yes. I would strongly advocate that. Every man has to pay something to the Central Government for the safety and tranquillity that he enjoys.

Q—Up to what limit could it go?

A.—If we increase by double what we have got now, it will be all right. It only comes to six pies or about two pies for 4 or 5 months for a man That means absolutely nothing We must avoid the direct principle of taxation It is more harassing

Q—Do you think salt duty will be better than a tobacco tax? Would you advocate a tax on tobacco?

A—I treat the tobacco as a luxury but not a necessity

Q—Do you think tobacco a luxury or a necessity to the cultivator?

A—I think it is a luxury If one cannot live without it, it is a necessity

Q—Have you thought out how you would levy a tax on tobacco?

A—No, Sir.

Q—Why do you want to abolish super tax?

A—It should be entirely abolished It is very detrimental to the general interest as well as to the interests of the country and trade It was only a war measure the war has terminated but the tax is still there

Q—Don't you think that the richest people should pay most?

A—I do not think so, because he enjoys the same tranquillity and safety from Government as any other man

Q.—Regarding income tax on agricultural incomes, you say you don't understand what incomes escape taxation

A—Because to my knowledge they are taxed in one form or other They are already saddled very heavily, so if you saddle more, it will be quite impossible for them to pay

Sir Percy Thompson *Q*—With regard to question No 47, regarding assessment on the previous year's income you say you have already answered the question I, don't find your answer here?

A—I think it is due to a mistake

Q—Regarding question No 97 about the land tax, you say that the tax is so heavy and high that people have resorted to other professions. How?

A.—If you take dispassionately the class of persons who go to the army department, you will find that it is the zamindar class, which shows that on account of the little profit in land they had to resort to some other profession.

Dr Hyder. Q.—Recently I had a talk with the Recruiting Officer at Rawalpindi who said that he could not get a single recruit unless he went up into the mountains. In the plains it is very difficult to get the recruits. So it is not the land revenue that drives these people to go to the military service, but the absence of cultivable land

A.—No, Sir There are certain classes of persons who have got lands in these parts of the country you speak of and they mostly went on military service during the war. What is the reason? The reason is that the land does not pay as much as the service pays them.

Q.—Don't you think that the pressure on land is increasing, *i.e.*, more people are trying to get a living from land?

A.—I don't think so.

The President Q.—On the other hand you say they are leaving the lands and taking up other professions?

A.—They resort to some profession, like tonga drivers, car drivers or other industrial pursuits

Q.—Is it due to the assessment?

A.—No They pay land-revenue, yet they will not go into that profession. That clearly shows that the land does not pay them as much as the other professions

Q.—Are you interested in the question of succession duty?

A.—It would mean more burden and would make matters go from bad to worse

Q.—What is your view on excise policy?

A.—I have not studied it

Q.—You cannot stop illicit distillation except by making it cheaper.

A.—I think so

Q.—Is the illicit distillation widespread?

A.—I think in most places it is widespread. In fact I went to one place called Harikapathan for shooting and we found there about 50 or 60 stills in a jungle It is in Ferozepur district

Q.—Does it lead to heavy drunkenness?

A.—Certainly

Q.—Does it lead to much contempt for law?

A.—Yes.

Q.—You think the present staff is unable to prevent it?

A.—I think it is difficult to eradicate the evil.

Q.—What would happen if they tried to stop those 50 or 60 stills?

A.—Nothing will happen

Q.—It won't lead to violence?

A.—I don't think so.

7th February 1925.

Delhi.

PRESENT

SIR CHARLES TODHUNTER, K C S I, I C S, President

SIR BIJAY CHAND MAHTAB, G C I E, K.C S I, I O M, Maharajadhiraja Bahadur of Burdwan

SIR PERCY THOMPSON, K B E, C B

DR R P PARANJPYE

DR L. K HYDER, M.L.A.

Rai Bahadur SHANKAR DAYAL, B.A., LL.B., M.L.C., Vakil, Partabgarh, Oudh, was examined.

Written memorandum of Rai Bahadur Shankar Dayal.

The object of the Taxation Committee is not to enquire into expenditure of the State but to enquire into existing taxes and taxes that may be abolished or substituted, or added, otherwise, I would have suggested the abolition of certain unnecessary departments such as Agriculture and others, and also of certain posts, the maintenance of which is no longer required in British India However, I will confine myself to reply to the questions asked for

Q 5—No I will not advise to adopt to India

Q 6—I will not advise the undertaking of all India legislation

Q 15—So far as United Provinces is concerned the charge is more than adequate Except rice and sugarcane the maximum rate is Rs 4 per bigha The rate is based on the principle explained by Sir L C Porter, late Finance Member to the Government of the United Provinces, on a discussion in the Legislative Council, United Provinces, on 16th February, 1921

It is as follows —

"The result is that the rates for all *rabi* and *kharif* crops, except rice and sugarcane were equalized in order to simplify the account both for the cultivator and in office

"The second object was to increase the difference between lift and flow rates to the advantage of lift rates in view of the increased labour charges for raising water

"The third object was to level up the rates on certain new canals and branches to those prevailing elsewhere, now that the new branches have had time to develop, and lastly to slightly increase certain low rates in view of the large increase in expenditure of maintenance "

As regards the plans suggested I would prefer the one marked number (3).

Q 16—When a State charges under one of the plans of question No. 15 for the outlay on irrigation then I do not think the State can be entitled to take share in the increase in value of the land

Q 21—Indirect taxation is levied both upon luxuries as well as upon necessaries.

It is not expected that every shop keeper will have a list of those who are rich or of poor, or of moderate standing It is further too difficult to define these expressions A poor man also sometimes requires the use of whisky to meet medicinal purposes

Tobacco is smoked in India by all classes of the people and cigars and cigarettes by the rich and the middle class.

Q. 51.—Those who advocate that the poor should be freed both from the direct and indirect taxation cannot advocate that the salt which is used by the poor, who form the majority of Indian population, should be taxed

Those who advocate that tax may be imposed upon the necessaries will agree that tax on salt which is light may be maintained.

Q 52—The reply to the question is covered in reply No. 51.

Q 53—In the Annexure G, the rate of taxation of the United Kingdom and India is not given. Hence, no definite reply can be given

Q 54.—I would prefer the sale of salt by Government at cost price

Q 63—The principle underlying the statements seems sound The use of intoxicating liquor tends one to its immoderate use and in the end one becomes so habituated that he cannot get rid of it As regards the use of tobacco I do not know whether it is detrimental to health, for I daily see a number of doctors using it every day.

Q 65—The duty imposed seems fair when the object is to reduce consumption There can be no uniform rate introduced The rate may depend upon local prices of commodities applied in manufacturing liquor

Q 66—The Excise supervision has checked illicit production.

Q 71—No variety of rates needed

Q 72—Yes

73—Yes.

Q 87—For court-fees I would prefer substitution of taxes on (1) advertisements (2) betting, (3) entertainments and (4) railway travelling

Q 89—To do justice is a sacred duty upon a State It should not be sold It does not look well upon the part of the Crown to say to subjects that the door of justice is open to one who pays certain duty

In India no tax on judicial proceedings has ever been imposed either during the Hindu or Muhammadan period The British Government in India charges 7½ per cent, besides other charges in connection with proceedings such as process fees, applications, *vakalatnamas* and so forth Even in criminal cases one has to pay court-fees of certain amount on complaints.

A foreign government if it wants to become popular should adopt its policy in consonance with the habits and traditions of the people it governs

In my opinion court-fees on judicial proceedings to be abolished

If the Government does not see its way to abolish then only such court fees should be charged which may meet for the cost of the courts including pension of officers and capital cost of buildings

The proposal to tax on ability to pay court-fees will be impracticable as it will be difficult to ascertain one's ability to pay.

Q 90—I do not agree There has been no complaint as yet.

Q 91.—In my opinion the registration fees should be so levied as may be just sufficient to pay for the cost of the Registration staff, including pensions, capital cost of buildings and so forth.

Q. 95—I would prefer to see a more general extension of the entertainment tax

Q 96—Rent is a tax imposed almost throughout British India.

Q 97.—In order to increase land revenue, the object of the British Government has always been to assess rent on tenants arbitrarily, without regard for *the cost of cultivation, labour, and to the fact that it is out of the produce of* land that a cultivator maintains himself and his dependents, and also meets the expenses of marriages, funerals and festivals. The Indian industry being

killed by the foreigners, about 80 per cent of India's population now depends upon agriculture, out of the rent the Government charges about 50 or 60 per cent and the rest is utilized by landlords If the Government reduces land revenue then rent will be proportionately reduced

Q 98—Besides the criticisms laid down, other criticisms can also be made.

Q. 99—If the Government were to have land revenue on the average of recorded rents of, say, 10 years, then the question of prices which are fluctuating can be avoided

Q 100—Perhaps the Government officials have not taken notice of but it is a matter of an Indian's experience that about 60 per cent of the cultivators hardly get every day a meal They get no cloth to protect themselves against the severity of cold season The rest hardly get two meals a day Their meal consists of bread made of either barley or gram flour, and it is only on principal festivals (that is once or twice a year) that they get bread made of wheat flour

Hardly there will be a cultivator in India whose agricultural income will be Rs. 2,000 a year

It is only the big landlords whose income can exceed Rs 2,000. But these landlords have to maintain their position in life and bear the cost of realisation of rent as well as of marriages, festivals and so forth On account of complexity of legislation and the wavering state of judicial mind in deciding cases, both the landlords and tenants have to spend large sums of money to meet litigation which is the curse of a nation

The agriculturists grumble at the rate of rent and land revenue which the Government charges at present They pay direct land tax and to ask them to pay income-tax upon the rent and revenue will amount to an unprecedented tyranny

The majority of European officials at assessments care for the increase of Government land revenue and with the exception of a very few the Indian officials to please either their masters or to get title or promotion prove more severe in this respect than the former

If any enquiry were to be made the whole thing can become clear If any steps were to be taken to assess income tax on agriculturists' income, it will result in enriching some of the Income-Tax Officers

The agriculturists, who form the largest population of India, will resent and there will be apprehension for a revolution in the country

As I wrote above, a foreign government should adopt such systems of taxation which may suit subjects and not to rule a foreign nation on continental lines

The policy adopted by the Government in ruling India is suicidal

Too much cruelty in imposing numerous taxes brings a government's fall

There can be no apprehension of fractionisation of holdings when none of the cultivator's agricultural income exceeds Rs 2,000 a year

As regards landlords they by habit are not inclined that their zamindari property be split up

Q. 108—The list of taxes referred to in the question is not exhaustive In place of octroi there is an alternative tax called *tax on circumstances and property* which is levied in certain municipalities and which is of the nature of income-tax

There is also another alternative tax called toll tax The United Provinces District Boards Act empowers local boards to levy tax on circumstances and property besides other taxes which may amount an income tax on agriculturists' income As the local bodies have to maintain themselves and to meet their own expense, there seems no way to discontinue the taxes referred to in the question

(*Note*) Thus, if an income tax were to be imposed on agriculturists' income it will mean treble taxation, *viz*, (1) land tax, (2) income-tax imposed by the Government and (3) tax on circumstances and property.

It is not expected that every shop-keeper will have a list of those who are rich or of poor, or of moderate standing. It is further too difficult to define these expressions A poor man also sometimes requires the use of whisky to meet medicinal purposes.

Tobacco is smoked in India by all classes of the people and cigars and cigarettes by the rich and the middle class.

Q 51 —Those who advocate that the poor should be freed both from the direct and indirect taxation cannot advocate that the salt which is used by the poor, who form the majority of Indian population, should be taxed.

Those who advocate that tax may be imposed upon the necessaries will agree that tax on salt which is light may be maintained.

Q 52 —The reply to the question is covered in reply No. 51.

Q 53 —In the Annexure G, the rate of taxation of the United Kingdom and India is not given Hence, no definite reply can be given

Q 54.—I would prefer the sale of salt by Government at cost price

Q 63 —The principle underlying the statements seems sound The use of intoxicating liquor tends one to its immoderate use and in the end one becomes so habituated that he cannot get rid of it As regards the use of tobacco I do not know whether it is detrimental to health, for I daily see a number of doctors using it every day.

Q 65 —The duty imposed seems fair when the object is to reduce consumption There can be no uniform rate introduced The rate may depend upon local prices of commodities applied in manufacturing liquor

Q 66 —The excise supervision has checked illicit production.

Q 71 —No variety of rates needed

Q 72.—Yes

73 —Yes.

Q 87 —For court-fees I would prefer substitution of taxes on (1) advertisements (2) betting, (3) entertainments and (4) railway travelling

Q 89 —To do justice is a sacred duty upon a State It should not be sold It does not look well upon the part of the Crown to say to subjects that the door of justice is open to one who pays certain duty

In India no tax on judicial proceedings has ever been imposed either during the Hindu or Muhammadan period The British Government in India charges $7\frac{1}{2}$ per cent, besides other charges in connection with proceedings such as process fees, applications, *valalatnamas* and so forth Even in criminal cases one has to pay court-fees of certain amount on complaints

A foreign government if it wants to become popular should adopt its policy in consonance with the habits and traditions of the people it governs

In my opinion court-fees on judicial proceedings to be abolished.

If the Government does not see its way to abolish then only such court fees should be charged which may meet for the cost of the courts including pension of officers and capital cost of buildings

The proposal to tax on ability to pay court-fees will be impracticable as it will be difficult to ascertain one's ability to pay

Q 90 —I do not agree There has been no complaint as yet.

Q 91.—In my opinion the registration fees should be so levied as may be just sufficient to pay for the cost of the Registration staff, including pensions, capital cost of buildings and so forth.

Q. 95 —I would prefer to see a more general extension of the entertainment tax.

Q 96 —Rent is a tax imposed almost throughout British India

Q 97 —In order to increase land revenue, the object of the British Government has always been to assess rent on tenants arbitrarily, without regard for the cost of cultivation, labour, and to the fact that it is out of the produce of land that a cultivator maintains himself and his dependents, and also meets the expenses of marriages, funerals and festivals. The Indian industry being

killed by the foreigners, about 80 per cent of India's population now depends upon agriculture, out of the rent the Government charges about 50 or 60 per cent and the rest is utilized by landlords If the Government reduces land revenue then rent will be proportionately reduced

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(*Note*) Thus, if an income tax were to be imposed on agriculturists' income it will mean treble taxation, *viz*, (1) land tax, (2) income-tax imposed by the Government and (3) tax on circumstances and property

Q. 109.—With reference to criticism laid against the octroi system referred to in the question, the only comment I would make is that it is not costly in collection in comparison to income, and also that the burden of tax is distributed in proportion to the profits gained by local expenditure.

The terminal tax in India is what is called pilgrimage tax levied on certain municipalities such as Allahabad, Benares and Ajodhya and where large number of pilgrims go every year.

In certain small municipalities the terminal tax is in the nature of toll tax. In other words the railway levies a certain duty per maund on the load and after deducting a certain percentage for the cost, remits the remainder amount to the municipality concerned. With reference to the terminal tax as levied in India there can be no comment.

Q 110—The octroi gives more income than any other local tax.

It is in force in almost all big cities It cannot be replaced by any other tax which can give the same amount of income

Q 111—Toll tax is levied mostly in small municipalities where there is no octroi

They are liable to the same comment as octroi

Either octroi to be maintained or toll to meet local expenditure.

The limit of distance between one toll gate and another depends upon the limits of the municipality and no rule can be laid down as the limit of each *municipality differs*

In every municipality there should be such gates as may enable a municipality to control the egress and ingress of loads inside it.

Q 112—As a matter of fact owners shift the burden of the tax upon the occupiers Hence reply to the first part of the question does not arise

Q 113—The Legislature under Local Acts lay down maximum rate beyond which the local bodies cannot assess

These Acts also point out the various items upon which the local bodies can assess

It is to check the arbitrary exercise of powers of local bodies that certain limitations are made under Acts

If a local body is unable to meet the local expenditure from taxation on a particular item, it can resort to tax on another item allowed under the Act

Q 114—The limits of exemption adopted by several municipalities differ

It is a tax imposed on rent realised by owners from houses or might be realised if rented, although it may be their residential house By such taxation the owner of a house increases rent which affects the poor who have got no houses of their own to live in

Even if some have houses to live they on account of their poverty are unable to pay the tax

There are also some owners of houses who maintain themselves and their dependents upon the income of house-rent and are for certain reasons unable to enhance rent If any deduction in their income is made on account of the tax *that affects their daily subsistence*

Q 115.—In a municipality there is some land owned by it being given either by the Government or by private individuals.

There is some land belonging to private individuals too.

The land belonging to municipality is free from any tax.

The land of private individuals is assessed.

When a municipality lets out land either for building or for pasturage, it, like private individuals, charges rent varying from Rs. 25 to 60 per bigha

The rating of land can be allowed on its undeveloped value only.

Q 119.—Income tax is levied on *business profits* and on *corporations.* I would propose tax on profits on mines if not already taxed

Q 120—(i) If we look at innumerable taxes levied I am of opinion that every Indian is taxed some way or another.

There cannot be one tax suggested which would reach each individual and also meet the national expenditure.

(ii) In connection with question No 100, I have pointed out that it is not desirable to levy income-tax on agricultural incomes.

Fees on probate and letters of administration are already levied. If income-tax is totally abolished then I would suggest tax on property inherited.

As regards movables it will be difficult to ascertain them and their values

If Government were to sell tobacco at cost price then I would allow the Government tobacco monopoly

Tobacco being used by about 60 per cent of India's population and which is not an evil to public health should not be taxed by the Government acquiring monopoly

Tobacco also in some form or another is recognised as essential in all social gatherings on the occasions of marriage, festival and so forth In this light it is not luxury and should not be taxed.

Domestic servants since Gandhi agitation are scarcely available and if any tax were to be levied on servants as such then in that case they will be more scarce.

In this the middle class will suffer

The servants have already increased their wages, and if a tax were to be levied that will give them another chance for further increase in their pay

Tax on displays will give very little income and will be costly in collection

Betel is used by the majority of Indian population

It is sold dear and if any tax will be imposed then it will come dearer still and will be used by very few

The tax that will be realised will not be in proportion to collection charges

Like tobacco, betel also is recognised as an essential amongst the Indians in social gatherings

(iii) The educated Indians feel the pinch of the dowry system prevalent in India They preach that the system be abolished If any tax will be levied on dowry, then it is sure and certain that the system will be abolished in no distant period The tax no doubt will relieve the poor who are unable to procure husbands for their girls, but so far as the Government is concerned it will not gain anything by taxation next year after it is enforced

(iv) In connection with income tax on agricultural incomes, I have commented in connection with question No 100

With respect to death duties I have commented in connection with the question No (ii)

As to the rest of taxes referred to they may be imposed

(v) Requires no comment.

(vi) The suggestion of substituting a produce tax of one-sixth is quite in consonance with Manu the first law giver of Hindus

Akbar followed Manu in this respect

The question is whether the scheme proposed is practicable in present days If it can be adopted it will give the Government more income and will also be satisfactory

Q 121—I do not agree and the reasons are found in reply to question No 120 (ii).

Qs. 122 and 123—If tobacco is at all to be taxed then I would suggest the means marked (1) in question No 122

The other means suggested will be resented strongly by the public and will be unworkable

Qs. 137 and 139.—Taxation on inherited property will be impracticable, *firstly* because it will be difficult to ascertain the entire property both movable and immovable, and also their respective values, and *secondly* to avoid taxation it may be disposed of in other ways. To enforce a legacy or to recover a debt the taking of probate or succession certificate may be necessary to prove one's title and for which a fee is taken by the Government. But in cases where there is no will and mutation has been effected and thereby title becoming clear then there seems no necessity for taxation on the inherited property

Further, the tax proposed might be approved by foreign countries but it was never introduced in India during any period.

Indians will resent the taxation unknown to them. To abolish any existing tax and to replace it by taxation on inheritance will be, in my opinion, inadvisable

Q. 140—I do not think any of them appropriate to India.

Q 141—None of the ways suggested are appropriate to be adopted. Under Hindu law according to the Benares school a member of joint Hindu family, whether he may be a manager, has no definite share of his own till partition. As soon as he dies his share survives to the remaining member and the deceased is considered as having left no property On partition a member gets his own share only He cannot dispose of any portion of joint family without the consent of other members of the family unless it is to meet some family necessity

Under the circumstances neither (*a*) nor (*b*) can be applicable. The suggestion made in clause (*b*) is further not based on equity, justice and good conscience

It seems most unfair to tax the entire family property in which a manager can have his share determined on partition In other provinces also where the joint family system is not of the type of the United Provinces even there a tax cannot be fairly levied upon the entire family property on the death of a manager who has got only a share in it.

The suggestion made in (*c*) of adopting European system will also be inappropriate in India to adopt.

Q 144—It will be difficult to ascertain either the property (movables) or its value

Q 146—There are many classes of persons in India There are some whose subsistence is based upon income from estates. There are others, who may be few in number, who have got other sources of income besides estate, and for them exemption to the extent of £100 may be inadequate having regard to the circumstances I have written in connection with question No. 40

In England the majority of the people have many sources of income besides estates and for them exemption to the extent of £100 may be adequate.

If a tax on inheritance is to be imposed then the exemption limit should be not less than Rs 2,000.

Q 166—No. I will not recommend

Q 169—Without detriment to their duties as Land Revenue Officers, Tahsildars and Sub-Divisional Officers may be invested with taxation functions relating to income-tax and hemp drugs and intoxicating liquors as before.

The post of Income-tax Officers and Excise Inspectors may be abolished and which will give much saving to the State. Before, the Land Revenue Officers used to take help of the police in investigation relating to excise and some help is taken by Excise Inspectors too. In case the posts of Excise Officers and income-tax officers are maintained then some of the posts of Tahsildars may be either abolished for shortage of work, or they who have got less work may be invested with the duties of a Sub-Registrar besides their own.

Q 171.—I am of the same opinion as Mr. Adams regarding State taxes.

The municipal and District Boards are under Acts made independent in fiscal matters. The Government has no control over the realisation of local taxes

The appointment of State officials for realisation of local taxes will interfere in the local self government of local bodies.

Rai Bahadur Shankar Dayal gave oral evidence as follows :—

The President. Q.—You are a vakil of Partabgarh and a member of the Legislative Council?

A.—Yes, Sir

Dr. Hyder. Q.—With regard to your answer to question No. 15, you say that the charge is more than adequate. I do not see why you say that the rates for *rabi* and *kharif* crops should be equal

A.—The rate is based on the principle explained by Sir L C Porter, late Finance Member of the United Provinces Government, and he has given the following three reasons —

The first is that the rates for all *rabi* and *kharif* crops, except rice and sugarcane, were equalised in order to simplify the accounts both for the cultivator and in office

The second was to increase the difference between lift and flow rates to the advantage of lift rates in view of the increased labour charges for raising water.

The third was to level up the rates on certain new canals and branches to those prevailing elsewhere

Q.—My point was this, that the cultivator does not require so much water in *kharif*, and he says "I can grow my crops without the help of the canal water and I would like to pay so much for the water as is just necessary" Do you think you are enunciating a sound principle?

A.—I do not think so The view expressed is that of Sir L. C. Porter as representing the Government

Q.—Do you think the charges for canal water adequate or inadequate?

A.—They are more than adequate At the same time Government is also increasing its land revenue in proportion to the improvement of the lands.

The Maharajadhiraja Bahadur of Burdwan Q.—Does the water-rate remain the same at the particular settlement or does it increase?

A.—Yes, it also increases

Q.—For how many years does a settlement run in your province?

A.—Thirty years

Q.—Within the space of thirty years, is there any likelihood of water-rates being raised?

A.—I do not think so

Q.—You just now said to Dr Hyder that you think that water rates are more than adequate for this reason that Government increases its revenue, but I take it that Government cannot increase its revenue until another settlement I want to know, does the Government increase the water rate in some other way or does it remain stationary?

A.—For that period it remains stationary.

Dr. Hyder Q.—With regard to charging water-rates you think that the State should not get more than interest and cost of maintenance?

A.—I think so

Q.—It should not take a profit?

A.—No.

Q.—Would you apply this principle to all the canals or to each individual canal? Suppose one canal costs a great deal and it runs through a famine-stricken area where the people would be very poor, do you think it is fair for the Government to charge a fair rate of interest and maintenance costs in view of the fact that people are very poor?

A.—There should be some difference in that case.

The President. *Q.*—In the United Provinces you have both the owners' rates and occupiers' rates in irrigation?

A.—I think so.

Q.—Can the owner recover the additional charge from his tenant?

A.—Yes, that he can.

Q.—Under what Act can he do this?

A.—There is no special Act of the legislature. I think there are some rules made by Government.

Q.—You say that Government is entitled to take a share in the increased value of the land?

A.—Yes, Government can take the increase by way of increase in land revenue as suggested in plan No. 3.

Q.—How should it take it, in one lump sum or by instalments?

A.—My idea is this. Government can raise revenue. As a matter of fact it does at a certain percentage, so as regards the expenditure in irrigation, Government may increase its revenue.

Dr. Paranjpye. *Q.*—Can you tell us what is the actual amount of increased revenue and water-rate that Government gets on account of supply of water?

A.—I can't say exactly, but I think the maximum is 50 per cent on the assets. I think in the United Provinces they charge 50 per cent on the rental realised by the landlords.

Q.—Not less than that?

A.—It varies between 40 and 50 per cent.

Q.—Is there anything like a premium paid for renewal of leases in order to get over this? Are any premiums charged for the renewal of leases?

A.—The landlord does charge *nazarana*.

Q.—What is the amount of *nazarana* compared to the rent?

A.—If the landlord charges *nazarana*, as a matter of fact, the rent must be comparatively low.

Q.—Do you think that is a fair system if the rule of taking 50 per cent is observed?

A.—Government is too shrewd. At the settlement if Government thinks the rent is comparatively low, then it also considers the rent which is high, that is, highly paid by the tenant. Government, of course, fixes its share accordingly, having regard to that rent which is highly paid by the tenant, because it is of opinion that the low rent is due to the payment of *nazarana*.

Sir Percy Thompson. *Q.*—Suppose *nazarana* is Rs. 4,000 and the rent is consequently Rs. 100, the land revenue will be only Rs. 50?

A.—Government says that it will fix a standard rent, that is, it will take the average of high and low rents. On that they will charge.

Q.—I have seen quite a number of settlement reports, and I find, that taking this *nazarana* into account, Government is getting less revenue than it ought to get

A.—You will please see the settlement report of Muzaffarnagar where it is otherwise. Government there has charged upon the highest rent paid by the tenant

Q.—My point is that owing to the *nazarana* system the State does not get as much as it ought to get

A.—It may be so I do not know that

Q.—Don't you think that the dues from the tenant should be taken only in the form of rent and not in any other way?

A.—There is no other form. I think it is very difficult for Government to find out any other. The *nazarana* has been totally abolished by law in Oudh, but at the same time the tenants pay it and the landlords take it

Q.—Would it be possible to assess the land revenue on the basis of net profits from cultivation leaving aside the rent altogether, after deducting all the expenses of cultivation?

A.—I think it would be impracticable In some cases the tenants have got big families There is the system in Oudh where the Government has to consider the number of persons in a family, and also the produce of land, and after making all these calculations to assess rent accordingly

The Maharajadhiraja Bahadur of Burdwan. *Q.*—Supposing *nazarana* was done away with, that is to say, the landlord cannot take any bonus, you have to give the landlord greater facilities for enhancing the rent You cannot have it both ways Do you think from your experience, supposing *nazarana* was done away with entirely by law, and the zamindars got greater facilities to raise their rents, it would be better for the tenant, or would the system of *nazarana* be better?

A.—I think it would be for the benefit of the tenants if the system of *nazarana* is abolished and they are asked to pay full rent I think by abolition of *nazarana* Government and the tenants will be benefited

Dr Paranjpye *Q.*—You mean to say that the payment of a big lump sum makes the tenant more indebted, and so it will be better to spread their payments over a series of years?

A.—Yes

Dr Hyder *Q.*—You do not define the extent to which indirect taxation should be regarded as voluntary

A.—It is very difficult to define what is voluntary, necessity or what is a luxury

Q.—Do you think tobacco is a necessity of life?

A.—I think it is a necessity for a certain class of people

Dr Paranjpye *Q.*—Are not there more urgent and less urgent necessities?

A.—But tobacco is generally used by about 60 per cent of the people. After all it is a necessity for many people Some doctors say that it is a medicine.

Sir Percy Thompson *Q.*—I gather from your remarks that you think the system of income-tax collection is unsatisfactory. Have you any suggestions for improving this unsatisfactory method of collection?

A.—I have not considered any methods which may remove these complaints because it is very difficult to get rid of the corruption.

Q—I take it that you consider income-tax a very good one?

A.—Yes.

Q—Though the complaints you speak of ought to be removed to improve the administration, you think they are necessary evils?

A.—Yes.

The President. Q—You say it is impossible to introduce a uniform rate of excise duty In every other country it is uniform, I do not know why it is impossible in the United Provinces.

A—I think to introduce uniformity will be inequitable. Because duty depends upon the price of the articles which are used for the manufacture of liquor

Q—Then you agree that the duty may be uniform?

A—Yes, the duty may be uniform

Q—You think that court-fees on judicial proceedings should be abolished?

A.—I think the State has got a sacred duty to perform, namely, to render justice, and for that, from an Indian point of view, it is considered wrong that the State should charge court-fees

Q—Then you think that the legal profession should plead for nothing for performing a sacred duty?

A—Well, there is a vast difference between the Crown and the subjects.

Dr Hyder Q—If the Crown performs justice for nothing, don't you think that people will be sitting in the compounds of the courts all day, and there will be a lot of useless litigation which will be very difficult to restrain?

A—Then the door of justice is entirely shut to the poor man, because he cannot have money to go to the court

Q—You make another interesting statement that no tax on judicial proceedings has ever been imposed in India either during the Hindu or Muhammadan period Have you got any authority for this statement?

A—I have studied Manu's works I do not find they were charged.

Q—You should know that the income from court fees is much less than the expenditure on the courts

A—My information is that the expenditure is only one fourth of the income At least it is so in the United Provinces. The income there from court fees is four times the cost of administration.

The President Q—The Accountant General in Madras found, until the fees were raised recently, the expenditure was greater than the fees.

A—I don't know that.

Dr Hyder. Q—Could you give me any authority for your statement that no fee was charged during the Muhammadan and Hindu periods?

A—So far as I have read the Ain-i-Akbar, Manu, etc., I do not find any such tax was levied during those periods Our ex-kings of Oudh did not charge A mere application on plain paper was sufficient.

The President Q—With regard to question No. 98, you say that besides the criticisms laid down, other criticisms can also be made Can you tell us what are those other criticisms?

A.—One of them is that the landlords and tenants have to remain waiting before the Settlement Officers for a number of hours for months. The landlord being afraid that the revenue might be increased, he does not improve the lands On account of the increase of revenue at every settlement, the landlords and the tenants do not get money to save They do not get much money to invest in other lucrative concerns, I mean to say even if the price of land is rather growing it is because 80 per cent of the population in India depend upon agriculture

Q—But the fact that the price of the land is going up shows that there is much money?

A—I do not know that the price of land is going up to the extent it ought to The *mahajans* and others who have money buy lands or lend money to purchase lands

Q—You say they buy lands: if the land gives no return, why should they buy lands?

A—Because it is a safe investment

Q—If they lose on it, it is not an investment at all?

A—The interest they may get on it may be low, but the investment is a good one So they buy lands

Q—You will please refer to question No 103. You say in place of octroi there is an alternative tax called tax on circumstances and property. I think in the United Provinces there are two taxes, one is called profession tax and another is called tax on circumstances and property How do they differ from one another?

A—I think there might be a slight difference, practically it is the same

Q—Is the tax on circumstances and property levied on the agricultural classes?

A—They are authorised under the Local Act

Q—But surely the tax on circumstances and property is a tax on others than agriculturists?

A—I have no information about that

Q—Income from agriculture is excluded, is it not?

A.—I think it is excluded. I have made a mistake.

Q—You say "the limits of exemption adopted by several municipalities differ" Can you tell us any of these limits?

A.—In some municipalities they charge tax on a house bearing a rent of *even ten rupees.*

Q—Anything less than ten rupees is exempted Sometimes the limit is higher, is it not?

A.—I cannot say what is the highest limit.

Q—You say that if Government were to sell tobacco at cost price then you would allow a Government tobacco monopoly. What would be the cost price or monopoly price?

A.—I cannot fix the price now. The Government may not profit by this, but the public would benefit.

Q.—You say that fees on probate and letters of administration are already levied, but I think you know that they are not compulsory at present. If a man wants letters of administration, then only is he required to pay. Don't you think that it is an unjust system of levying taxation? If you want to levy taxation, it ought to be paid by everybody It is only Christians who pay now. Don't you think that this taxation should be levied uniformly upon all the people?

A—Can the Government compel anybody to take out letters of administration?

Q—It is absolutely necessary in other countries

A—I think this sort of analogy cannot apply to India in this case.

Q—But don't you agree with me that any tax should fall equally upon all classes? At present it is not so

A—Yes, I agree with you there

Q—In cities like Bombay and Calcutta, they are required to take letters of administration, but in other places, not Don't you think a uniform system is necessary?

A—When a person wants to realise a debt, he, as a matter of fact, is *bound to take probate or letters of administration, but in other cases he* is not required to do so I think in other cases Government should not compel him to take out letters of administration.

Q—If there is a law that everybody should take probate or letters of administration when he receives property from the deceased, is there anything wrong in it?

A—You cannot apply a very hard and fast rule in these cases You cannot compel a man to take out a succession certificate

Q—What harm is there?

A—If a man is not willing to take advantage, Government can only charge when that person asks for probate or letters of administration.

Q—Government can equally well say that a man won't be allowed to succeed to his property unless he pays a portion to the Government?

A—In that case the Government will be cancelling personal law Sup*posing the property is under litigation, he won't be prepared to pay* Government before he succeeds or gets hold of the property.

Q—But are there not ordinary cases of succession in which Government should get a share?

A—Every person has to wait for limitation till 12 years I think you should not compel a man to take out a succession certificate.

Q—You advocate a tax on dowries in place of the taxes which you propose to abolish?

A.—Yes, but it won't be profitable, comparatively speaking

The Hon'ble Lala SUKHBIR SINHA, Member of the Council of State, Muzaffarnagar, United Provinces, was next examined.

Written memorandum of the Hon'ble Lala Sukhbir Sinha.

Q 1.—The statistics collected at present and available for the purpose of estimation of the wealth of the country seem to me to be adequate and reliable There is no doubt that these statistics are not often accurate as the estimates of crops are not generally made on the actual produce, but are generally made by guess work and mathematical process, but there is no other agency than the present one to do this work and for the purpose of making an estimate of the wealth of the country, the present figures should therefore be relied upon. For the future I would suggest that the work of an estimation of crop produce should better be done by a Revenue Officer with the members of the village panchayats So far as my information goes such an officer is at present deputed, but he does not invite reliable persons of the village to help him in this work. I think village panchayats will be of much help to him

Q 15.—The charges for canal water in the province of Agra and Oudh are more than what they ought to have been I would propose that they should include the bare cost of working and interest on the capital invested, without any commercial profit In these provinces the net revenue from canals, after deducting all the working expenses, is 7 72 per cent (*vide* Irrigation Administration Report, 1922, page 111) on the capital outlay on productive works, and is a very reasonable outturn, Government is not therefore justified in deriving from canals a higher profit on the capital outlay They should charge for water in all the temporarily settled districts at such a rate as may be sufficient to cover the working expenses and the interest paid on borrowed capital, in order to encourage cultivation and derive more land revenue from irrigated lands The State have introduced canal irrigation in the country not so much for the sake of making profits as for the (*a*) prevention of famines, (*b*) development of agricultural produce, and thereby enhancing land revenue, (*c*) making land revenue stable and (*d*) removing the necessity of suspensions and remission of land revenue This is evident from the instructions, given by the Government of India to the Irrigation Commission of 1901 that "the Government aimed at the expansion of the irrigation works not for the sake of direct profits from the sale of water, but for the sake of security of the country from the ill consequences of drought and famine and general prosperity of the country"

Q 16.—At present State share is taken from those lands that are newly brought under irrigation in the name of "Owner's Rate" But this is in addition to the increased land revenue and is therefore a double tax Therefore I would recommend that no portion of the increased produce in new irrigated lands should be taken as Owner's Rate, where land revenue has already been enhanced

Q 17.—Yes, tenancy laws have a great bearing on such proposals

Q. 23.—I don't agree with Mr Armitage Smith's statement In the case of tobacco I would not recommend any taxation as it is not a luxury but has become a necessity of life especially of the poor As regards intoxicating liquors, I am deadly against them and would propose high taxation on them, if by taxation their consumption can be decreased I would strongly recommend a total prohibition of them

Q 24.—A tax on entertainments may be imposed in case of necessity but, in case of railway tickets I may, however, point out that a tax on third class passengers will be unjust as it will fall on the poor and a tax on the third class passengers will hamper mobility of labour which will be an economic loss There should be no hindrance in the mobility of goods or passengers. As regards the higher class passengers there is already an element of taxation on higher class tickets as the difference in charges is often much higher than the actual difference in comforts hence this tax may be increased only in cases of extreme necessity, otherwise it will be unjust to the middle class people who already bear a heavy burden of taxation. Moreover, railway rates have increased much since the war

Q—With regard to canal water, you think that the charges are more than adequate and you say that the State should charge only the bare cost of working and interest on the capital?

A—Yes

Q—Our difficulty is this Suppose the canal was a private undertaking. The private supplier would not base his charge on the cost of supply of water, but he would take into account also the fact that the water is really of great value to the agriculturist and charge accordingly. Now why should the State follow a different principle? The State has undertaken a commercial enterprise and it requires money That being so, why should it not raise money from such sources where it can easily get money, rather than go on taxing the people?

A—I differ from this view The Government have introduced these canal systems not on commercial principles but for the sake of improving the agriculture and for the sake of making the land revenue stable and to prevent famines

Q—It may be right to say that the charges for the water should not be heavy in a famine stricken area. But I do not see why the charges should not be more than the bare cost of working and interest on the capital invested, in an area where the agriculturists are well off

A—In my opinion this is not just like a private concern It is a State concern Private people can charge anything they like for their own interest But the State should not do so The Government will get back indirect profits from irrigation which a private body cannot For instance, by an increase in the land revenue the Government will get more profits

Q—But you should not take payment for the supply of water in the shape of land revenue

A—But where irrigation is introduced, the land revenue goes up by leaps and bounds As soon as land gets water, the produce is increased.

Q—Then your land revenue is a share of the general return of the land plus the water?

A—Yes

Q—Do you take the return of water in that shape?

A—Yes Water on land produces more. There is no question about it. If there is no canal water, the produce will be much less

Dr Paranjpye Q—Suppose Government brings water to a piece of land belonging to a big land-holder He does not cultivate the land himself He lets out the land and simply because the Government has taken the trouble of bringing the water to his lands, he gets a much larger return on his land than he would get otherwise. Do you maintain that Government is not entitled to charge fully for the water that is brought to him?

A—The Government should charge a reasonable rate; whether it is taken by the cultivator or by the landlord, that does not matter

Q—Do you think it is equitable that the landlord without doing anything, without troubling himself to get the water, without even taking part in the cultivation, should get this unearned increment for nothing?

A—*Why for nothing? He is paying the price for the water*

Q—But what has this land holder done to get this increase? His land was producing only very little before water was introduced, but now with the addition of water it is worth a good deal and he himself has not done anything

A—I think Government should charge the price of water as well as enhanced land revenue If there is no water, there is no enhanced land revenue. Government will take the price of water as well as the enhanced land revenue. That is sufficient

Q—Government, in justice, is entitled to take all the increased value from the non cultivating owner

A—No Why should not the owner get more profit on his investment in land? If a zamindar or a proprietor—by whatever name you may call him—will become more prosperous, he will pay other indirect taxes to the Government in different forms If a country is prosperous, the Government will get more. There is no doubt about it.

Dr. Hyder. Q.—In the U P. there are people who cultivate their lands with the aid of wells, there are others who cultivate with the aid of canal water The produce from both goes to the same market and fetches the same price Do you think it is equitable to the cultivator who cultivates lands by wells that he should have to pay more for raising wheat than one who cultivates it with canal water, both getting the same price? These people who take well water have got to pay more but get the same price for their produce Is this fair?

A —I do not exactly follow what you mean Do you mean to say that the profit gained by the proprietor or the zamindar on account of the use of canal water should be divided between the State and the proprietor?

Q —Yes

A —I do not see why the Government should share the profit in that way

Q —Because Government has provided the zamindar with facilities and the increased produce is entirely due to those additional facilities provided by the Government

A —For that they are getting the price for the water

Q —But the point is this If they charge only the bare price of water, the arrangement works inequitably as between the cultivator who irrigates his land with the aid of a pair of bullocks, working for full 24 hours and the man who simply sits in his house and gets the advantage of water flowing through his lands

A.—I do not quite understand what you mean.

Sir Percy Thompson Q —Suppose you have land which before irrigation was giving a fair rent of Rs. 100 Now the Government at its own cost has provided canal irrigation and after that there is a fair rent of Rs 300 Thus there is an increment to the land holder of Rs 200 Now would you set any limit to the proportion of that Rs 200 which the Government is entitled to take? After all that land-holder has done nothing It is a windfall of Rs 200 and the State can take anything up to the Rs 200

A —I submit that Government should charge so much price for the water, as may cover the working charges and interest on capital and nothing further, because enhancement of land revenue stability of land revenue, and no remissions, and prevention of famines, etc , are the additional advantages to the Government

Q —Still the land holder has this windfall

A —Of course he will get it, as in every other case In business also the same thing happens

Q —But here it is entirely the action of the Government that has brought it.

A —In India agriculture mostly depends upon rainfall and not so much upon irrigation You cannot say that crops are increasing more and more on account of irrigation I have seen in my experience that even with canal water, the lands cannot yield as much as they do with the help of rainfall

Q —That is perfectly true I have started on the hypothesis that before the irrigation the yield was 100 and after that 300 Now the increase of 200 in value is a pure gain shared between the landlord and the tenant and it is entirely due to the action of the Government I cannot see why the landlord is entitled to any part of it He has not done anything

A —Why not He has invested money at a very low rate of interest, say, 3 per cent in many cases The irrigation system in India or in any other country is not introduced by the State only on commercial lines There are other aspects of it also For instance famines may be decreased, land revenue may increase and may be made more stable If there is no regular supply of water and the lands do not produce anything there will have to be suspensions, and remissions of land revenue In past years this was the case in the U P, when there was no proper canal irrigation and consequently there were famines after famines and both the people and the Government suffered very much Therefore these irrigation schemes were introduced not for making any direct profit but for preventing these evils and for having these indirect advantages

Dr. Hyder Q —Now that state of affairs has been done away with entirely by the introduction of the irrigation system.

A—Not entirely but to a great extent.

Q.—Suppose Government guarantees canal water during times of famine?

A.—I think Government cannot guarantee. At present they are supplying about half of what is required. On account of the recent floods all the bunds have been cut off. In my part of the district the crops have been spoiled for want of irrigation. Only about half of the crop will remain and yet the Government will charge the full price for the water although they will give one or two waterings. Whether the produce is more or less, full rates are charged.

Q.—Is there no system of fluctuating assessment in the U. P., for instance, *kharaba*?

A.—Yes. There is such a system but it is used in very rare cases. When there is complete drought they make some remissions; otherwise they charge full water rates.

If I get water to a distance which is one mile from the canal at a certain rate, the rate must be higher for a distance of 100 miles. But now the Government has another system. That is, those who are closer to the source and who should obviously be supplied with more water, are supplied with less water. They are charging the same rate but the water supplied is less in quantity. That is why there is so much of complaint on the Upper and Lower Ganges canals.

Q.—Don't they get enough water for their crop? Is it not carefully calculated?

A.—They do calculate. In the view of officers a certain quantity may be sufficient, but in the view of the cultivators that quantity may not be sufficient.

Q.—But in the view of experts in agriculture, the cultivators waste water.

A.—I admit that they waste it to some extent. But the present system is not satisfactory. They close the distributaries for a certain period when a great difficulty is felt for water.

Q.—They give notice when that closure is going to take place.

A.—But the crop is not in the hands of any cultivator. They want water at a particular time and if no water is available at that time the crops will dry up.

Q.—May I now come to another point in this book, that is, as regards the remission of the owner's rate of *muafi* lands? Is not the owner able to recover that from the tenant?

A.—No. 'owner's rate' is another name for land revenue. It so happens that when canals are introduced in dry villages where there was no irrigation at all before, the zamindars get more profit and therefore the Government demands a share of that profit. The Government charge water rate for the water and charge a share of that increased profit by the name of owner's rate.

Q.—You say that the zamindars get more profit. Is it the land-holder or the tenant?

A.—Both.

Q.—Then the owner's rate is a share of the increased profit that he secures; and you say that the State is not entitled to take any share of it?

A.—Yes. The Government was not getting any land revenue from these *muafi* lands. So the Government had no right to take any share from the profits of the zamindars or jagirdars. In this case the Government allege that they have brought irrigation to the villages where there was no irrigation at all before for which the profits have increased, and therefore, the Government want to take a share of that increased profit. The proprietors say that the Government have no such right; the land revenue was remitted to them and therefore whatever may be the profits, the Government can charge only the price of water but they have no right to take any share of the profits brought about by irrigation. That is the contention of the proprietors.

Q.—Supposing Government had made a bargain with the proprietors before they introduced the irrigation system and said 'we will bring the canal if you pay a share of the profits you would derive and if you are not prepared to give us the share, we shall take the canal to some other village'. Then what would the proprietors have said?

A.—That is a different matter altogether. If a contract has been entered into, no one can break it A contract is a contract But when there is no such contract, the question is whether the Government is entitled to take any share

Q—Do you apply this principle to all commercial undertakings of the Government, such as railways, post office, etc?

A—No I apply this only to irrigation works

Q—You think that Government should charge more on the railways?

A—I think they should.

Q.—Then there will at once be the cry that the Government is unfair

A—But I have already said that Government gets other indirect advantages from the canal water Such advantages they cannot get from the other systems—railways, post office, etc

The President Q.—In reply to question No 17 you say 'Tenancy laws have a great bearing on such proposals'. When this question was put down I gathered the impression from this little book that the rent was fixed I now gather from what you told us that my idea was mistaken

A.—Yes Owner's rate is land revenue Since the time of my father we have got a big zamindars' association of which I am now the Honorary Secretary, and in his time as well as in my time we addressed the U P Government and the Government of India on this subject and prayed that this owner's rate is another form of land revenue and should not be charged from the jagirdars or *muafidars*.

Q—In reply to question No 23 you say that tobacco is a necessity of life. Is it a greater necessity than salt?

A—Salt is a greater necessity than tobacco, but tobacco has also now become a necessity About 90 per cent of the labouring class now use tobacco

Dr. Paranjpye Q—Is it a necessity or a luxury?

A—It is not a luxury, it has become a necessity

Q—Are there any cultivators who do not take tobacco but are equally efficient?

A—Very few do not take it

Q—At any rate they are equally efficient

A—I cannot say

The President Q—What would be your view of a proposal to abolish the salt tax and impose in its place a tax on tobacco?

A—I am opposed to both The necessities of life should not be taxed. May I point out that nature has supplied mankind with the elements which are necessaries for life But has nature put any tax on them? For instance, air, light, water, etc Should any Government put any tax on them?

Q—There are water rates

A—Yes But water rates are charged for the cost of supplying water to land for irrigation purposes

Dr. Hyder Q—But nature has also brought us famines

A—That is due to our *Karma* That is another theory In our Shastras the King is supposed to be next to Providence In Manusmruti it is said that taxes should be collected in such a way that the burden be not felt, just as the sun takes up water from the earth We do not feel how the sun draws up the water Taxation also should be collected in that way so that it may not be felt

The President Q—When you buy a seer of salt do you know how the tax is collected?

A—We know it because the price goes up. Last year I was one of those who did not advocate any increase in the salt duty My previous experience was that on account of increase in the salt tax, prices rose up. But last year I found that the price of salt was the same although the rate was reduced from Rs 2-4-0 to Rs. 1-4-0 I had also put some questions as to why the price has not gone down and why the middlemen are allowed to eat up the profits.

Q—Do you think that there is much middleman's profit?

A —Yes Formerly when there was the agency system and the Government used to sell the salt, the price was 18 seers per rupee; but it is now selling at 8 or 9 seers per rupee

Q —Would you like a return to the agency system?

A.—Either the agency or some other system. When there was the agency system during the period when I was Chairman, we gave licenses to shopkeepers on the condition that they would not sell the salt above a certain rate; they did so and they earned little profits But now they sell at any rate they like and the whole profit goes to them

Q —Do you think that Government ought to control it right through?

A —*Yes, I think so*

Q —You don't advocate the complete abolition of the salt tax?

A.—I should like to do so if the finances allow it

Q —Tax on tobacco?

A —I oppose any tax on tobacco, because it has become a necessity of life especially among the poorer classes Of all the intoxicants, tobacco is the least harmful *Bhang* also is little harmful and my opinion is that these two should not be taxed

Sir Percy Thompson *Q* —With regard to income-tax, you would not advocate any increase in the present rates?

A —Yes; I submit that the present limit of Rs. 2,000 should remain and that the *assessment should be based on the preceding three years' income as is the* case in England.

Q —But we are told that there will be some difficulty in getting the accounts of three years

A —No. In the case of those who do not keep their accounts, the officer will make his own estimate But in the case of those who can produce three years' accounts, that system would be more equitable

Q —But it is very unsatisfactory to calculate on a haphazard estimate

A —That will be only when the accounts are not produced My view is that if people can produce three years' accounts, it would be more equitable

Q —But the only trouble is that people won't keep accounts for three years

With regard to the limit of Rs 2,000, that is nearly equivalent to £150

A —Yes.

Q —Don't you think that the margin of subsistence is higher in England than in India?

A —There is no doubt. But here it is supposed that a family of 4 or 5 persons cannot live on less than Rs 2,000 a year.

Q —You justify the limit of Rs 2,000 on the ground that people have large families?

A.—Yes

Dr. Paranjpye *Q* —Don't you think it inconvenient for a man who has made a very heavy profit two years ago and no profit this year to have to pay income-tax which is based on that highly profitable year?

A.—Such cases will happen no doubt But the three years' system will be much more reasonable and equitable than the one year system

Q.—But if the income-tax is charged only on the profits of the preceding year, the difficulty will not be felt so much

A —May or may not be He may get more profit or he may get less profit.

Q —When a man gets more profit, he does not complain. But when a man gets less, he will find it difficult to pay the tax and it may be almost impossible to pay it without running into debt.

A —It may so happen; but he will have to guard against it

Q —If the income-tax is charged immediately after the income is got there will be no difficulty

A.—But *there are many cases where the* three years' accounts are kept

Q.—From the tax-payer's point of view, I put it to you that it will be rather hard and unsatisfactory to adopt your system.

A.—In individual cases it may be so. Hard cases must occur now and then.

Q.—Why should not the tax be paid immediately after the income is earned? Why should the man wait for two years before he pays the tax?

A.—I think that when you take the average of three years, it will be more satisfactory to the Government as well as to the tax-payer.

Q.—The man might have got good profits during the last two years and he might not have got anything this year. He may say 'it is very difficult now to pay the tax out of the small sum that I have got this year.'

A.—Yes, it is possible. Formerly there was a provision in the Income-tax Act to have a compounding system for five years or more. In the new Act that provision was done away with because some people said that compounding was not good. There are many people who say that they would prefer to have that system, while some others say that they would not like it. It is a question of individual opinion. But taking all circumstances into consideration,—the difficulties connected with assessment and collection—I think it is more reasonable, equitable and satisfactory to base the tax on the three years' average income and continue the assessment for five years if possible. It will save a considerable amount of trouble. If you will go into details of the difficulties that the people have to undergo, you will find it horrible, although Government have more assessing officers now than before. Previous to the present system the tahsildars were the officers who used to assess the tax and there were many difficulties. Many people managed to evade the tax and many suffered too much. Then the present system was introduced and special officers were appointed in every district. Now the difficulty is that they have too much work to do. They go to a place and remain there for a week. They don't find time to go into details and they do the work superficially. Generally they try to increase the assessment because their promotion depends upon the increase in the assessment. In my district I find that every year it is on the increase.

Sir Percy Thompson. *Q*.—Do you think that the income-tax is collected more efficiently under the new than under the old system?

A.—It is very difficult to answer this question. The income-tax officers are now people who have some knowledge of accounts, whereas previously the tahsildars did not have such knowledge. But the difficulty is that these officers have not sufficient local knowledge. I was one of those who wanted the present system of having officers in every district and for that reason the tahsildars and others were very angry with me. I thought that the system would work better. But from my experience I now find that the present system also is not satisfactory.

Dr. Hyder. *Q*.—How many officers are there in each district?

A.—Sometimes there is one officer for one district and sometimes two or more districts are under one officer.

Q.—Suppose the number of the officers is increased. Do you think that the present system would then work well?

A.—I think it would work better. Now one officer has too much work.

Sir Percy Thompson. *Q*.—You think that if the staff is increased the results will be more satisfactory both from the point of revenue and from the point of view of the tax-payer?

A.—Yes. People should also be encouraged to keep their accounts properly. At present the officer has to do much guess work. The people do not generally keep accounts and even if they do keep them they are afraid of showing them to the officers.

Q.—That is one of the greatest difficulties in all countries.

A.—But that difficulty can be removed here. One of the difficulties is that the officer does not know the vernacular in which the accounts are generally

kept He sends for another man who knows the language to go into the accounts and people are afraid to show their accounts to each and everybody. Of course if any responsible officer of the Government wants the accounts, they will not have so much objection to show them as they would have to show to anybody who comes to them

Q.—To the tahsildar?

A.—No; not even the tahsildar

Q.—So you are no worse off than what you were under the old system?

A—No the old system was still worse

Q—The accounts are not kept in one common script; they are kept in a number of scripts?

A.—The Marwaris and other bankers keep them in *mundi* Other people, zamindars, etc, keep them in Hindi

Q—So if the Government appoints an officer knowing the vernacular, the system would work well?

A—Yes Another difficulty is that the officer does not accept the accounts even of those persons who are supposed to be honest If careful attention is given to this point, it is possible that people will be induced to keep their accounts in a proper form and produce them when required I have seen many cases where proper accounts have been produced but rejected. That is why the people say 'why should we keep any accounts at all when the officers do not care for them'

The President—Suppose the law says that a certain item should be taxed but the man shows that under depreciation and does not want that it should be taxed There are certain rules laid down and the officer cannot go beyond those rules

A—That is not what I mean The officer should accept the accounts in as many cases as possible unless there are some extraordinary reasons

Q—A firm incurs a large amount of expenditure for a purpose which it thinks is a perfectly legitimate purpose or it may enter certain other expenses which are not admitted under the income-tax law.

A—About that the officer can put questions and satisfy himself; but he should not reject the accounts as a whole The result now is that many people who used to keep their accounts do not now keep them They say 'what is the use of our producing them when they will not be accepted'.

Dr. Paranjpye. Q—I suppose you have heard of cases where two sets of accounts are kept, one for the purpose of showing to the income tax officer and the other for himself

A—Some do that

Q—So that the officer has to make himself sure that the accounts produced are the proper accounts?

A—Yes Such persons who keep false accounts must be sent to jail

The President. Q—A few such cases of sending to jail will have a very salutary effect?

A—Yes, a very salutary effect

The Maharajadhiraja Bahadur of Burdwan Q—In reply to Q 96 you say "This is more true of Bengal where permanent settlement prevails and in the zamindari tracts there is a complete abeyance of State ownership of land so long as the landlords pay revenue and therefore the State share is more a tax on rent than rent proper." Do you consider that the revenue taken by Government from a permanently-settled tract is more a tax than it is in the case of revenue taken in a temporarily-settled area?

A.—No In both cases it is a tax.

Q.—You contend, therefore, that land revenue is a tax rather than rent?

A.—Yes

Q.—Then, do you consider that the land revenue in a temporarily settled area also is a tax or is it mere rent?

A.—It is also a tax There is no difference

Q.—What is your ground for saying that it is a tax?

A.—Whether it be in a permanently-settled area or a temporarily-settled area Government takes a certain percentage of what the land holder gets from the tenant as its tax

Q.—The land holder gets it from the tenant in the shape of rent?

A.—Yes

Q.—Therefore, the Government takes only a share of that rent?

A.—No Government taxes on that rent.

Q.—So your argument is that the Government taxes the rent at 50 per cent?

A.—Yes It comes to that

Q.—In that case you do not agree with the view that the Government is the proprietor of the land?

A.—No

Q.—You do not agree to the view that there is such a thing in India as crown lands?

A.—They have got certain lands of their own

Q.—You think that this is a tax and not the State's share of the rent? And you would call the Government's share a tax and not rent because you contend that the Government has not proprietary rights over the land?

A.—Yes; that is my idea.

Q.—Now as regards the latter portion of your answer to Q 96, is it not a fact that the Government of India's resolution of 1902 rather exploded the contentions of men like Mr Dutt?

A.—No

Sir Percy Thompson *Q*.—Do you know of any single case where the land revenue exceeds the economic rent?

A.—I do not know of any case

The Maharajadhiraja Bahadur of Burdwan. *Q*.—In connection with the land revenue, I suppose you must have read in newspapers about the proposal of Sir Ganga Ram that all land should be sold for a lump sum and so on Do you think that it is a practical proposal so far as the U P people are concerned?

A.—Yes, I have read Sir Ganga Ram's pamphlets It is a big question and it has to be considered fully

Q.—Do you think that the tenant can afford it? Will he be really benefited?

A.—The system was in vogue previously in India I asked the *Government* of India to send me a copy of the resolution under which that system was done away with In that resolution, some reasons are given as to why this *system of* redemption of land revenue on payment of a certain sum was abolished This is the copy of the resolution. (The witness handed over the copy of the resolution to the Committee). I think the system was good

kept He sends for another man who knows the language to go into the accounts and people are afraid to show their accounts to each and everybody Of course if any responsible officer of the Government wants the accounts, they will not have so much objection to show them as they would have to show to anybody who comes to them

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Dr Paranjpye Q—I suppose you have heard of cases where two sets of accounts are kept, one for the purpose of showing to the income-tax officer and the other for himself

A—Some do that

Q—So that the officer has to make himself sure that the accounts produced are the proper accounts?

A—Yes Such persons who keep false accounts must be sent to jail

The President Q—A few such cases of sending to jail will have a very salutary effect?

A—Yes, a very salutary effect.

The Maharajadhiraja Bahadur of Burdwan Q.—In reply to Q 96 you say "This is more true of Bengal where permanent settlement prevails and in the zamindari tracts there is a complete abeyance of State ownership of land so long as the landlords pay revenue and therefore the State share is more a tax on rent than rent proper" Do you consider that the revenue taken by Government from a permanently-settled tract is more a tax than it is in the case of revenue taken in a temporarily-settled area?

A.—No In both cases it is a tax

Q—You contend, therefore, that land revenue is a tax rather than rent?

A.—Yes

Q.—Then, do you consider that the land revenue in a temporarily settled area also is a tax or is it mere rent?

A.—It is also a tax. There is no difference

Q—What is your ground for saying that it is a tax?

A—Whether it be in a permanently-settled area or a temporarily-settled area Government takes a certain percentage of what the land-holder gets from the tenant as its tax

Q—The land-holder gets it from the tenant in the shape of rent?

A—Yes.

Q—Therefore, the Government takes only a share of that rent?

A—No Government taxes on that rent.

Q—So your argument is that the Government taxes the rent at 50 per cent?

A—Yes It comes to that

Q—In that case you do not agree with the view that the Government is the proprietor of the land?

A—No

Q—You do not agree to the view that there is such a thing in India as crown lands?

A—They have got certain lands of their own

Q—You think that this is a tax and not the State's share of the rent? And you would call the Government's share a tax and not rent because you contend that the Government has not proprietary rights over the land?

A—Yes, that is my idea

Q—Now as regards the latter portion of your answer to Q 96, is it not a fact that the Government of India's resolution of 1902 rather exploded the contentions of men like Mr Dutt?

A—No

Sir Percy Thompson *Q*—Do you know of any single case where the land revenue exceeds the economic rent?

A—I do not know of any case

The Maharajadhiraja Bahadur of Burdwan *Q*—In connection with the land revenue, I suppose you must have read in newspapers about the proposal of Sir Ganga Ram that all land should be sold for a lump sum and so on Do you think that it is a practical proposal so far as the U P people are concerned?

A.—Yes, I have read Sir Ganga Ram's pamphlets It is a big question and it has to be considered fully

Q—Do you think that the tenant can afford it? Will he be really benefited?

A.—The system was in vogue previously in India. I asked the Government of India to send me a copy of the resolution under which that system was done away with In that resolution, some reasons are given as to why this system of redemption of land revenue on payment of a certain sum was abolished This is the copy of the resolution (The witness handed over the copy of the resolution to the Committee). I think the system was good.

Q.—Suppose the Government did redeem land revenue. Will you then be in favour of paying income-tax on your income from land? You get rid of the land revenue and your income should become liable to income-tax as any other income.

A.—No Because there is this difference; we shall buy the land revenue, that is, the right of Government to land revenue

Q.—So long as you pay the land revenue, you may contend that income-tax should not be levied on agricultural incomes But when once you redeem the land revenue, I do not see how that contention can hold good.

A.—It will hold good in this way We shall have redeemed land revenue. that is, the right of Government to land revenue shall be redeemed while our profits will remain the same We do not at present pay income-tax on agricultural income and I do not see why we should pay it hereafter.

Q.—Suppose you sold to your tenant a piece of land for Rs 10,000 and you invest that sum in some shares You will have to pay income-tax on that sum

A.—Yes, of course

Q.—Now you buy up this land revenue and the Government does not charge you any more land revenue But your annual income, say, after a certain number of years becomes double what it is now Then how can you escape paying income tax on that portion?

A.—I submit that it will make no difference to the purchaser Because he pays no income tax at present He will be only purchasing the right of Government to collect land revenue Then why should he pay any income tax? He is purchasing the Government's share in the land for which the Government is not now paying income-tax The principle which is now in force, *viz.*, that agricultural incomes are exempted from income-tax, would apply then also But if you want to change the entire system, and abolish land revenue, then income-tax can be levied

Q.—There has been a proposal to abolish the land revenue system and substitute income-tax in its place Would you agree to that?

A.—Yes There is much to be said in favour of that proposal Though I am not at once in favour of it without a full consideration, I think it is worthwhile considering the point I am of opinion and strongly submit that the present land revenue system is most unsatisfactory and that is the reason why the produce per acre in this country is very much smaller than what it is in other countries The yield is going down year by year

Dr Hyder *Q*.—Suppose the land revenue is abolished and a tax on the capital value of the land is levied Would you like that?

A.—I am not prepared to advocate any system at present All that I can say is that the present system of land revenue ought to be changed for the better.

The Maharajadhiraja Bahadur of Burdwan.—We as a committee are not expected to suggest whether A system should go or B system should go But we are here to say whether the present system of land revenue offends against the canons of taxation and if it offends, we will have to say so Now suppose the Committee came to the conclusion that the land revenue—whether in the raiyatwari tract or temporarily-settled tract or permanently-settled tract—as assessed at present offends against the canons of taxation so much that we had no good word to say for it And suppose that we suggested income tax on agricultural incomes in the place of land revenue Do you think that such a system will be welcome?

A.—I think it will be My chief reason for a change in the land revenue system is that there is no inducement at present for the proprietors or the raiyats to invest more money on land

Dr Paranjpye. *Q*.—Are not the new improvements exempted from assessment?

A.—That is only in the rules but not in practice Only very few improvements are exempted

Q.—Suppose you redeem land revenue for a term of years, say 50 years. That is, if a man pays a certain amount, say 25 times the land revenue, he will be exempted from payment of land revenue for a term of 50 years. Would you agree to it?

A.—No one would agree to it. Why should it be charged after 50 years? No one would like to accept that.

Q.—But you say that the present system of assessment interferes with improvements in land Suppose a man is certain that the improvements will not be taxed for the next 50 years, then he will improve the land

A.—I don't think so Such improvements are to be exempted even now but in very few cases exemptions are allowed For instance, if the zamindar pays Rs 1,000 for getting better manure and better seeds; no exemption is made on that account There are many factors for the improvement of agriculture. There is shortage of bullocks The land is not properly ploughed and properly manured and therefore the produce per acre is going down If agriculture is improved, we can have four times the present yield on the land

The President. *Q.*—With regard to Excise, in reply to question No. 61 you say that by taxation very little reduction is made in the consumption The Excise Administration Report of the C P and Behar gives the percentages of reduction in 8 provinces In 3 of them the reduction of consumption as compared with the average for the previous 5 years is over 50 per cent in three more it is nearly 25 per cent

A.—By the new system that they have introduced in the U P, consumption is no doubt going down, but it is not very appreciable For instance, they issue the country spirit of a certain power When it goes out of the godown the sellers mix water with it and convert one bottle into four bottles of liquor and the people are using it as they were using it before

Q.—But that is not very strong

A.—Yes, but consumption among the people is the same

Q.—But it is much diluted and they drink water instead of spirit Do you object to that?

A.—They are satisfied with it But we have to look to the bad effect Whatever they earn they spend upon the drink Even though it is water the price will not be much reduced

Q.—Do you accept these figures as showing more than 50 per cent reduction in consumption?

A.—The figures may be true But I don't find there is any reduction in drunkenness

Q.—Do you think that there is much illicit production?

A.—No, not much There is so much supervision

Q.—But the returns give us statistics of very large illicit production In the Punjab there is only one shop for 38 000 people

A.—I admit that reduction in shops will have a good effect But even that is not satisfactory

Q.—Do you think it is practicable to go any further?

A.—Yes I think we should prohibit the sale altogether

Q.—Then illicit distillation would be increased

A.—No The present administration is so well established now that all such cases can be dealt with in the criminal courts

Q.—On the other hand, we are told, for instance in the Punjab, that illicit distillation has got so much out of hand that the State cannot control it at all More than half of the liquor that is drunk there is illicit

A—I am not aware of that I often go to the Punjab but I have not heard of any complaints

Q—We are told that 50 illicit stills were once found in one jungle

A—I do not know

Dr Hyder Q.—Don't you think that there is illicit distillation in the U P.?

A—No

Q—Have you read the Local Government's review on the last administration report?

A—I generally read these reports There is much revision in the establishment now and there are 3 or 4 inspectors in every district.

Q—The Government say that the illicit production is so extensive that they have to reconsider their policy

A—I do not know

Q—In Bundelkhand?

A—You may perhaps find it there There the people are very poor and it is possible that there may be some illicit distillation there But generally there is not much illicit distillation There is full control by the department

The President. Q.—Are you one of those who regard excise revenue as bad in itself and think it should be abolished?

A—Yes

Q—Even if you cannot abolish the drink by that method and even if it is only a pious aspiration, you would abolish the revenue?

A—Yes I am in favour of total abolition of excise revenue

Q—With regard to question No 108, don't you think that the richer should pay more than the poor people?

A—Yes They pay even now taxes on motor cars and such other luxuries.

Q—Are you now connected with the Municipal Board?

A—Not now I was Chairman for ten years

Q—What was the total collection of the house tax?

A—It was about ten thousand rupees It was very unpopular Only the rich people used to pay it.

Q—But the octroi ran into lakhs?

A—Yes, being indirect it was not felt by the people The prices are not affected by the terminal tax.

Sir Percy Thompson Q—Is it not a fact that in the case of octroi a very much larger amount is paid by the tax-payer than actually goes into the hands of the municipality? Is there not corruption?

A.—Yes There is corruption but I think there is more corruption in the case of octroi than in the case of terminal tax. Terminal tax is much better than octroi.

Q—How do you account for the hostility to direct taxation? For instance, in Madras the bulk of the local revenues is raised by direct taxation, *i.e.*, house tax, etc.

A—Direct tax is very much felt by the people I do not know why it is not so in Madras In my province the people very much feel the payment of the house tax They would rather pay indirect taxes

2nd March 1925.

Delhi.

PRESENT:

Sir CHARLES TODHUNTER, K.C.S.I., I.C.S., President.

Sir BIJAY CHAND MAHTAB, G.C.I.E., K.C.S.I., I.O.M., Maharajadhiraja Bahadur of Burdwan.

Dr. R. P. PARANJPYE.

Dr. L. K. HYDER, M.L.A.

Sir GORDON FRASER, Kt., M.L.A., Sir CAMPBELL RHODES, M.L.A., and Mr. H. G. COCKE, M.L.A., were examined.

Written memorandum of Sir Gordon Fraser, M.L.A.

Qs. 21-23.—I do not think that any tax should be excluded from consideration [illegible] such tax should [illegible] taxes on luxur- [illegible] atter to draw a [illegible] as distinct from [illegible] ar as possible in preference to necessities but the citizen paying such tax should receive credit and consideration for the same. If all consumers were to exercise strict self denial in regard to taxed luxuries it would result in taxes on necessities in order to raise the funds required.

As regards the special query put forward in question 23, I think the fallacy there is that *immoderate* smoking and drinking are vices, and I have no objection to heavy taxation being imposed to prevent this, if possible.

Q. 24.—I am of the opinion that a tax on entertainments is a perfectly fair and legitimate one, but I would regard it not as an Imperial tax but rather as one to be imposed by local or municipal authorities.

I am not in favour of a tax on railway tickets, as any tax on transport is inadvisable, and in the case of India the cost of a ticket already includes a tax to the extent of a proportion of the contribution paid by the railways to the central revenues.

Q. 33.—In the event of other existing taxation being abolished, I do not advocate an increase in the rates of income-tax, as under the existing imperfect machinery for the collection of income tax, I consider even the present tax works unfairly in many cases. Instead of an increase in the rates of income tax I would advocate special attention being given to bring about an improvement in collections at the current rates in force under the present Act.

Q. 34.—I am of opinion that the present scheme of graduation is satisfactory.

Q. 35.—I do not advocate any differentiation in favour of earned income or of sums shown to have been invested in productive enterprises Under present conditions in India, and with the present imperfect administration of the present Act, I think as few complications as possible ought to be introduced.

Q 36.—For the same reason I am opposed to making any allowances for the number of persons supported out of particular incomes Indians resent any proceedings of an inquisitorial nature, especially in regard to family affairs, and under present conditions in the country any scheme of allowances would only lead to complications and make the administration of the Income Tax Act even more difficult than it is at present

Q 37.—I do not favour a continuance of the Indian super-tax on companies in its present form, and I consider that it should be abolished. I see no sound reason for handicapping a limited company to the extent of $6\frac{1}{4}$ per cent. of its profits as against a private firm I think it would be possible to follow the home procedure and enact that when a limited company fails to distribute [illegible] whole of the undistribut- [illegible] um rate It ought not to [illegible] which a limited company [illegible] ich taxed reserve to rank as capital and if and when paid out in the form of a bonus, to be free of income and super-tax

I do not think there is any justification for the privilege argument, but on the contrary I think it would be sound to offer inducements to traders to carry on their business in the form of companies registered under the Indian Companies Act Instead of handicapping, by extra taxation, companies registered under the Companies Act I think the reverse should be the case, and if any discrimination is to be shown it should be in favour of the registered companies

Q 38.—I am in favour of the removal of the exemption from income-tax of incomes derived from agriculture, but I quite appreciate that the situation is complicated by the want of uniformity between the different provinces in regard to land revenue assessments

Land Revenue is not a subject on which I pose as an authority, but it seems to me that the taxation of agricultural land in my own province of Madras is on so high a level that it can justly be said to include any amount that might otherwise be imposed as income-tax. This, I understand, is not the case in other province

Another difficulty is the fact that land revenue is imposed by the Provincial Governments whilst income-tax is imposed by the Central Government It seems to me that as a first step, before imposing an income-tax on incomes derived from agriculture, it would be necessary to bring the land revenue tax in all provinces to an uniform level, and this level would, I presume, have to be the level of the province with the lowest basis of taxation

In imposing income tax on incomes derived from agriculture I would draw no distinction between the actual earnings of the farmer and the income of the absentee landlord, or the money lender who has become a land owner through the foreclosure of a mortgage If any discrimination is considered advisable, the actual farmer might be exempted

Q 39.—I am afraid I have no data on which to base a reply to this question.

Q 40.—I consider that it would be quite fair to reduce the limit of income subject to exemption to a lower level than exists at present, but I do not advocate this for the same reason that I have given in my replies to several questions already answered, *viz*, that I do not consider the present administration of the Act of a sufficiently high standard to justify a reduction in the limit. Obviously it is more difficult and more expensive to collect income-tax from those in receipt

of small incomes than in the case of recipients of larger income, and if the limit were reduced I doubt very much whether the extra tax collected would justify the extra expense I would suggest that the limit should be as low as possible, consistent with the cost of collection and I am inclined to think the present figure of Rs 2,000 about meets the case

Q 41 —There is no doubt that there is at present a certain amount of dishonesty in connection with income-tax returns

I consider the growth of an accountancy profession since the passing of the Indian Companies Act of 1911 has had a good effect, but I am unable to say to what extent

I also consider that the introduction of a centralised and more efficient system of income-tax control has had a good effect

I consider that there has been a distinct improvement during the last year or two in the collection of income tax.

Q 42 —If a standard form could be devised workable in practice, I think it would be of considerable assistance both to Government and the tax-payer

Q. 43 —I have no doubt that the publication of income tax payments would result in an improved collection, but I feel sure that any suggestion to adopt this procedure would be strenuously opposed

Q 44 —The practice of issuing income tax free securities was more or less a war measure, and I think further issues on this basis should be discouraged

Q 45.—I am of opinion that bearer securities should be taxed at the source and I approve of the suggestion to collect such income-tax by means of a special stamp duty on the coupon

Q 47.—I am strongly in favour of assessment on the previous year's income, and consider this preferable to assessment as in England on the three years' average Assessment on the previous year's income appears to me the best method of procedure, as in practice it amounts to giving the assessee, say six months time in which to pay The income-tax for the year ending 31st December would be due about May or June of the following year, thus giving the assessee ample time to make up his accounts

I consider more latitude ought to be allowed in writing off losses than is the case at present

Q 68 —I would not approve of the imposition of supplementary duties on foreign liquors by local Governments I think this would be encroaching on the privileges of the Central Government, and would probably lead to further supplementary taxation of other Central Government sources of revenue such as general customs duties and income tax

Q 82.—I consider that a higher export duty than at present could be imposed on raw hides and skins, and that, thereby further revenue would be secured without injuring the trade of India

Q 109 —I agree with the criticism of the octroi duty as given in this question.

Q. 137.—I consider the introduction of duties on inheritance or succession is inadvisable owing to the difficulty of dealing with the Hindu undivided family. It would not be fair to introduce new taxes which could not be applied equally to all communities.

Written memorandum of Sir Campbell Rhodes, M.L.A.

Qs 28 and 29—Taxation, especially indirect taxation, is likely in India for many years to be in advance of representation, and as India derives so much of its revenue from indirect taxation it must be assumed that the whole population pay taxes in one form or another

Q 48—*First quotation*—I advocate widespread small duties in order to reach all consumers in proportion to their consumption, subject to careful discrimination in regard to luxury taxes

Second quotation—I agree

Third quotation—There is a hardship incurred by taxing necessities, but I consider this essential in India

Q 49—I will deal with details separately when giving evidence Raw material in the broadest sense should be free

Q 50—Broadly speaking, I do not think graduation practicable

Qs 51 to 56—I advocate a salt tax as the simplest form of poll tax and prefer free trade with no Government monopoly

Q 78—Widely spread

Q 81—Revenue duties, unless small, are best placed on articles which are not likely to be produced in the country or if produced can be conveniently subject to excise

Q 83—Specific duties wherever possible

Q 84—Tariff valuations are preferable to market valuations wherever possible

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Written memorandum of Mr. H. G. Cocke, M.L.A.

Q 13.—Government Commercial Undertakings—Generally Government should not trade When it does, there should be no cutting competition with private enterprise, and therefore, a commercial return should be aimed at If there is no question of such competition a monopoly profit for taxation purposes may be justifiable, *e g*, on the production and sale of salt

Q 14—*Element of Taxation in (a) Railways*—There is to the extent of the surplus, in excess of the commercial return, paid to the central revenues, if and when earned But in this connection the past losses of railways must not be forgotten There is leeway to be made up In this sense it may be argued there is no taxation in the surplus referred to

(*b*) *Posts and Telegraphs*—The position is much the same as with the railways. We have been told by the Government that, applying the principles of commercial accounting to this department, it is being run at a loss The budget statement should contain information on this point.

Q 33—*Increase of Rates*—I should not advocate an increase of rates for the general reason that owing to the difficulty of assessing small traders, it is believed that a very large number of assessable incomes either escape assessment, or pay less than they should There is, therefore, inequity as between one trader and another and especially as between the trader and the recipient of fixed salary, and for this reason an increase of rates aggravates the inequity.

But subject to this, I consider some increase and regrading of the present rates would be possible without causing hardship but I have no information enabling me to determine to what extent the revenue would be benefited.

The following is an example of a possible regrading —

Present Scale.		Possible Alternative Scale.	
When Income is less than Rs. 2,000.	*Nil*	When income is less than Rs 1,500.	*Nil.*
Rs.	Pies.	Rs.	Pies.
2,000—5,000	5	1,500—5,000	6
5,000—10,000	6	5,000—10,000	7
10,000—20,000	9	10,000—15,000 15,000—20,000	9 10
20,000—30,000	12	20,000—30,000	13
30,000—40,000	15	30,000—40,000	16
Over 40,000	18	Over 40,000	20

This raises everyone one pie, except incomes Rs 10,000 to Rs 15,000 which remains at 9 pies; it raises incomes over Rs 40,000 by 2 pies I merely put it forward as a possibility It also lowers the limit by Rs 500 to Rs 1,500 But in view of my opening remarks, it is subject to objections, and I should prefer to see increased revenue raised, if necessary, by indirect taxation, and that, as far as possible, on luxuries.

Qs 34-36.—Graduation and Special Allowances—I am not in favour of any complications in India in the form of different rates for earned income, allowances for children and the like

Q 37—Super-tax on Companies at the flat rate of one anna.—I am in favour of its retention, because, although it may be somewhat inequitable in that it may result in a so called double super tax payment, still if this tax is withdrawn some enactment will be necessary on the lines of the Home legislation to prevent the evasion of super-tax by one-man companies paying no dividends, putting all their profits to reserve, and making loans to their shareholders; I am not in favour of this complication

The hard case is the man who converts his business into a private company legitimately Assuming profits of Rs 3 lacs, he pays before conversion

Case A.—

	Rs	Annas	
First	50,000	Free	
Second . . .	50,000	1½	4687·5
Third	50,000	2	6250·0
Fourth .	50,000	2½	7812·5
Fifth	50,000	3	9375·0
Sixth	50,000	3½	10,937·5
			39062·5

Case B.—But if his business is a company, his company's profits are subject to super-tax at 1 anna on Rs 2,50,000 (Rs. 50,000 free)

Paid by Company . . . . Rs 15,625

and if he declares a dividend with the remaining profit available, *viz*, 2,84,000, he pays super-tax.

	Rs.	Annas.	
First	50,000	*Nil.*	
Second	50,000	1½	4687 8
Third	50,000	2	6250 0
Fourth	50,000	2½	7812 8
Fifth	50,000	3	9375 0
Sixth (part)	34,000	3½	7437·8
	Paid as an Individual		35562·8
	Total Paid		51187 8

as against Rs. 39,062-8 0 before conversion.

The question arises whether this inequity cannot be met by an allowance of (say) half an anna on the personal assessment on such profits proved to have already been assessed in the hands of a company, the word "assessed" to include the Rs 50,000 free If so, in the above case there would be half an anna allowance on Rs 2,84,000 = Rs 8,875 This would mean a total payment in Case B of Rs 42,312 against Rs 39,062 8 in Case A

Qs 38 and 39—No opinion

Q 40—*How low a limit.*—I would reduce the limit as low as practicable, but do not think a lower limit than Rs 1,500 would be practicable This however is subject to the general objection that the small trader in India often escapes where the salary earner is taxed.

Q 41—*A tax on Honesty*—As already stated this is true but the two factors mentioned in the question have done something—speaking of the city of Bombay—to rope in more assessees. I doubt if there is much improvement in smaller towns, but I am not in a position to say.

Q 42—*Standard Form of Account*—Desirable for the smaller trader.

Q 43—*Publicity*—Not in favour, unless of publishing cases where assessees have been "caught out"—"a panel of penalties".

Q 44—*Tax Free Securities*—Not in favour of further issues except in the form of encouragements to thrift, *e g*, Post Office Cash Certificates

Q. 45.—*Bearer Securities*—Consider tax could be deducted on payment of interest and handed over to Revenue authorities as is now done by companies paying debenture interest and salaries

Q 46—*Double Taxation.*—Consider the present law meets the case.

Q. 47—*Basis of assessment.*—Previous year basis is generally preferred for traders but it is inequitable as profits are *always* paid on, while a loss which may be equal to the profits of three years, merely relieves the trader from one year's tax. This results in accounts being drawn up to spread out losses over several years, which in some cases may border on "legal" dishonesty Losses should be capable of being recouped out of the next year's profits.

Sir Gordon Fraser, Sir Campbell Rhodes and Mr. H. G. Cocke gave oral evidence as follows:

Sir Gordon Fraser.—Sir, before we commence, I want to bring to the notice of the Committee on our behalf, that the statements we are making here to-day, are purely in our personal capacity. Our evidence is only our personal and individual opinion, and the views expressed by one do not necessarily represent the views of the others.

Mr Cocke was examined first.

Dr Hyder. Q.—You say the Government should not trade, and when it does, there should be no cut-throat competition with private enterprise, and therefore a commercial return should be aimed at. How are you going to estimate the commercial return which the Government should get?

A.—That becomes a question of commercial accounting. Take a case like railways. There is no question but that Government should get a proper return on the invested capital.

Q.—We are particularly interested in the water rates for the canals. Some witnesses have said that Government should fix the rates so that only a commercial return is given on the capital invested. Could you give any numerical value to that commercial return?

A.—To me it appears that there should be a commercial return. It depends on the capital invested in each scheme. Unless you know the block capital invested in a scheme, you cannot determine what return per cent you are getting.

Q.—The Government has proper accounts for these schemes, they have a capital account and make allowances for working expenses, maintenance charges and other things, and the surplus that is left is much more than 5 per cent in some cases.

A.—My opinion is—I do not profess to be a canal expert, but looking from the purely business point of view, I do not see why the Government should not get a commercial return on these undertakings. Canals are a monopoly just like salt and there is no competition with any private individual. So they can charge a monopoly profit, if the result of doing so is not unreasonable.

Q.—We are faced with the difficulty of what numerical value we should give to this commercial return.

A.—Generally it is considered 5 or 6 per cent. is a fair commercial return. But if Government provides water I do not see any reason why they should limit their profits to 5 or 6 per cent.

The President. Q.—You say that generally Government should not trade, and that when it does there should be no cut-throat competition with private enterprise, and therefore a commercial return should be aimed at. Will you refer to our question No. 163, which contains a quotation from Mill: "there are certain cases in which an agency of whatever nature by which a service is performed is certain, from the nature of the case, to be virtually single, in which a practical monopoly with all the power it confers of taxing the community, cannot be prevented from existing." Would you exclude cases of this kind in selecting those in which a commercial return should be aimed at?

A.—Yes, I think that Government should not trade in competition with the existing companies. I do not think Government ought to compete with the established trader, company or private individual.

Q.—Is it not a fact that in the case of telephones Government takes a royalty?

A.—They do.

Q.—Then they take it as a tax?

A.—Yes. It is something like getting a return for use of the roads by the company.

Q.—They take a share in profits?

A.—That is so in some cases.

Q—You approve the system of managing these concerns?

A.—I do not disapprove. I know nothing against it I am personally in favour of private undertakings At the same time I realise that the State has to come in sometimes in order to unify systems Telephones would be a case of this nature.

Q—May I invite your attention to Bullock's "Selected Readings in Public Finance" when the conditions justifying the establishment of a State or municipal enterprise are set out? Do you accept the conditions there given?

A—I do realise that there are cases in which Government must trade

Q—Would you approve of that in the case of electric supply as in Mysore?

A—There again I would prefer a private company I have only experience of private electric supply companies in Bombay, Karachi and Surat I am, generally speaking, in favour of private electric companies

Q—What do you think of the proposal of a Government monopoly of insurance?

A—You mean life, fire or what branch?

Q—All branches

A—I should be very much opposed to it Government has already got the postal life insurance scheme Apart from that, I should be opposed to Government opening any other branch of life insurance I do not think Government can afford to offer better terms than the private companies are offering now.

Q—What are your reasons?

A—Firstly, that State enterprises will not be so productive. I am opposed to the State interfering with well-established insurance companies. In the matter of life-insurance, it would mean driving out 30 or 40 well-established and first class British companies from India

Q—Drink and drugs are already practically monopolised One other monopoly suggested is explosives, from two points of view, control as well as revenue; what do you think of that proposal?

A—I imagine explosives are already taxed in a way, as you have to pay duty on cartridges. Except for cartridge filling, there is little manufacture of explosives You have fireworks I think they could be monopolised I think there will be very little opposition to it There is a license fee, I think, for making fireworks Practically, there is no such manufacture in this country I do not object to its being taxed

Q—Would you approve a monopoly of playing cards?

A—I do not think there will be any serious objection, although there might be difficulty with regard to Indian cards

Q—What do you think of the monopoly of quinine? Government has already very nearly a monopoly?

A—This is a matter on which Sir Gordon Fraser will be able to give you an opinion I do not know much about it

Q—Part of the trade is in Southern India and part in Bengal

A—I think it is a less harmful method of Government trading I have no personal objection to this

Sir Gordon Fraser. *A*—I have no objection. I think it would be conducive to maintaining the standard of quality

Dr Hyder. *Q*—Do you think there would be any danger of deterioration if private enterprise were to take over this business?

Mr Cocke *A*.—I do not think so.

The President. *Q*—Do you think there is any element of taxation in the revenue derived from railways or posts and telegraphs?

Mr Cocke *A*.—In the case of railways it can always be said that there is no taxation as the limited surplus going to central revenues must be taken into account in connection with the past losses of railway companies The same

with posts and telegraphs We are told, applying the principles of commercial accounting to this department, it is being run at a loss. Therefore, I do not think it contains any element of taxation

Q—What about coinage? Is there any element of taxation in that?

A—I do not think earning profits on coinage is a tax. I think it is a surplus which the Government can very reasonably use

Q—You think there is no element of taxation unless there is a big inflation.

A—I agree

Dr. Paranjpye *Q*—What is your general attitude on such activities as cannot be carried out without giving a monopoly?

A—Would you give me an example?

Q—Say, tramways

A.—There you must give a monopoly.

Q—I suppose the tramway company is carried on by a private agency Now supposing instead of giving the monopoly to a private company, the Government or the local bodies run the concern, would you call the profit of that concern a tax?

A—No I do not think so Provided you settle your fares to get a fair return on the capital, I do not think it is a tax

Q—Do you think it is proper for the Government agency if it takes into consideration the gain and loss of all the lines, i e, there are certain unproductive lines and certain productive lines which get bigger returns Would you call it taxation if some pay more and some less?

A—Not necessarily

Q—Would you call that taxation?

A—No I would not so call it Tramways are particularly a municipal enterprise as distinct from a Government enterprise, because they are necessary for the general amenities of the town

Q—If private companies can take them, then they can fix any rate and try to get as much return as possible, is it not?

A—I do not think it is ordinarily within the power of a private company to raise the fares as much as they like In practice, you will find it is impossible They will have to care for the opinion of the public After all it is a commercial proposition and they will have to consider what the public will pay

Q—In the case of canals, we have been told that the upper limit should be the expenditure involved in well irrigation Do you agree with that?

A—I do not agree with that You ought to give the benefit of the canals to the cultivator to some extent, but it is difficult to discuss these things without any figures

Q—The difficulty in the case of irrigation is just the same as in the case of tramways Some are profitable and some are unprofitable I want to know whether the rates should be so fixed as to make the whole department productive?

A.—I can only say that each scheme should be considered on its own merits. If you can produce water in a given area at small cost, you ought to be able to give the cultivator the benefit I mean to say there should be a fair return on each particular scheme I think the rates must be determined by the cost of supplying the water

Q—You have got two schemes in the Bombay presidency, one of which costs Rs 10 crores and the other only Rs 2 crores. The cultivator may get the same product, and you will have to charge him enough on the first scheme to make the

scheme worth while? You know the Sind irrigation pays and the Deccan irrigation does not pay?

A.—I should think you will have to consider both the schemes separately. Your reply to the cultivator should be that the project has been very expensive, if you want to make your lands fertile by taking the water, the price of water we are selling would be so much. If you want the water, you will have to pay so much for it.

The President. *Q*.—It comes to this, the poor land pays more and the rich land pays less?

A.—I see the point. It will be necessary to adjust the matter to meet such cases. From a commonsense point of view, you ought to charge him a fair percentage on the cost of supply from the particular project. I do realise there are difficulties.

Dr. Paranjpye. *Q*.—You realise that there were waste lands in Sind, which were not worth a single pie before, and after irrigation the same lands could fetch Rs. 200 or Rs. 300 per acre. This has been ensured to the cultivator only by canals. Don't you think in such a case as this Government should get a fair share of profits?

A.—It is very difficult to answer such general questions without figures. But I think the increased value of land which is due to irrigation is a factor which must be considered.

Q.—You cannot reasonably say it is a tax?

A.—It would be a question of a profit on the sale of land, which is due to the land becoming fertile as a result of irrigation. This might be met by special betterment taxation.

The Maharajadhiraja Bahadur of Burdwan. *Q*.—Your idea seems to be that in any case you will have to differentiate between the productive and the protective works?

A.—Yes.

Sir Gordon Fraser. *Q*.—I want to supplement the answers given by Mr. Locke regarding the water rates. As soon as you start an irrigation canal, it may develop lands previously quite useless for cultivation at all. You supply these useless lands with water and convert them into cultivable lands. I think in this case the Government is entitled to charge more than 5 per cent. I do not see any reason why the Government should restrict itself to charging only 5 per cent.

Dr. Hyder. *Q*.—The representatives of the cultivators have been putting forward this view that Government does charge in two ways, one by way of water rate and another by enhancement of land revenue?

A.—As long as they get it in land revenue it meets the case, but I do think in cases where the land has appreciated in value, Government is entitled to take more than what they were originally getting. Government is entitled to a certain proportion of the increased capital value of the land.

The President. *Q*.—The land revenue is a very small fraction.

A.—Then, I do not think it is quite sufficient. If land revenue is only a small fraction, Government is entitled to raise it.

The Maharajadhiraja Bahadur of Burdwan. *Q*.—If a man has to pay an extra Rs. 4, do you think it would be fair to put it directly on the water-rate, which is responsible for the improvement of the land or divide it between the land revenue and the water rate?

Sir Gordon Fraser. *A*.—I do not think it would be right to take the whole Rs. 4 and credit it to the water-rate.

The President. *Q*.—You do not think you ought to treat the water as you do manure?

A.—I think you ought to charge for water and also for the appreciation in the value of the land I would not lump it all into one as a single charge against the appreciation of land due to the water-supply

As regards an excise duty on playing cards, there are many different kinds of cards made in the bazar It would be very difficult to create a monopoly of these playing cards

In the case of tramway companies run by private companies, as long as they are run under a license issued by municipalities, I do not think there is any objection

Dr. Paranjpye Q—In Bombay the Company would not put on additional cars and the municipality cannot make them do so. They say they cannot do so unless the municipality will agree to an increase in fares

Sir Gordon Fraser A—That seems to me to be a fault in the original license.

Dr. Hyder Q—Towards the end of your answers to questions Nos 21—23, you say that "the fallacy is that immoderate smoking and drinking are vices." Do you think that Government should use this instrument of taxation as an engine of moral improvement? This question is bound up with the excise policy of Government. Do you consider that because smoking and drinking are vices, Government should use this instrument of taxation to correct or eradicate the vices?

A—I see no objection to their doing that

The Maharajadhiraja Bahadur of Burdwan Q—Do you think Government should control even the desires of the people?

A—No, it is going a long way to say that Government should by taxation attempt to limit the desires of the people

The President Q—The object of the question is to ascertain what is the burden of taxation on a particular class? To take an extreme case, suppose the whole of the taxation of Monte Carlo was on the gambling tables and the citizens were prohibited from entering the gambling houses, would the taxation of Monte Carlo be a burden on the citizens of the place?

A—It is all levied on the foreigner; there is no burden on the citizen

Dr Hyder. Q—When there is an influx of rich foreigners into Monte Carlo, the prices of everything in the place go up, don't you think it is an indirect burden on the citizens for which the State gets nothing?

A—It may be, but on the other hand, if you put it the other way, the State would not exist but for the influx of the foreigners

Q—There is no direct burden on the inhabitants of Monte Carlo as such, but when the influx of foreigners sends up the prices of everything, the citizens suffer and the State gets nothing

Mr Cocke A—The influx of foreigners is not a burden—it produces profit all round

Q—I mean the rise in prices which takes place on account of the influx

A—That is a gain to the man who sells

Q—Suppose you have a class which has got nothing to sell but everything to buy

A—The burden is a moderate one.

Sir Gordon Fraser A—If there is a burden on the people, they have a *quid pro quo*, they make profits out of the foreigner

Q—Suppose you went there simply for the sake of your health, you would find that the price of everything is very high

A—Yes, I suppose so, but I would be helping to relieve the burden of the citizen

The President Q—Suppose you had a tobacco tax, would the tobacco tax be a burden on the Sikh, who is a non-smoker?

A—It would not be a burden on the Sikh

Q—Is a tax on drinking a burden on the orthodox Muhammadan or Brahmin?

A—No

Q—Yet, you say you do not think that any tax should be excluded from consideration in estimating the burden on the tax payer?

A.—If you get a revenue from a tax on tobacco or drink, it is collected from the consumer of the tobacco or drink, and it ought to be credited to that person In the same way, if you take the orthodox Brahmin and wealthier classes, they generally wear fine clothes imported from Lancashire on which they pay a heavy duty; they ought to receive consideration for that It is voluntary on their part to wear these fine clothes. I think the consumer of the tobacco or liquor should get credit for his tax exactly in the same way as others should get credit for the duty they pay in the form of fine clothes

Q.—In estimating the burden on a particular class, you would include the taxes which they pay and exclude those which they do not pay

A—That is so

The Maharajadhiraja Bahadur of Burdwan Q—In reply to question No 24, you say that a tax on entertainments is a perfectly fair and legitimate one, but you would regard it not as an Imperial tax, but rather as one to be imposed by local or municipal authorities. If you made it local or municipal at the present moment, there might be a danger of bringing in racial questions Don't you think it would be better to make it provincial at the present moment?

A—Under present conditions, it is just possible that the party in power in municipalities might use that power to tax all entertainments other than those pertaining to their own class

Q—Don't you think that the balance of advantage lies in making it provincial rather than local or municipal?

A—In making it municipal, we have to provide funds for municipalities

Q—That should be done by Government allocation If you want to finance local municipalities, there are other ways of doing it My point is that the time has not yet come to make the entertainments tax a local or municipal one, it is rather new to India

A—I agree

The President. Q—Of course, the incidence of the tax is localized in certain areas and the municipality does bear a certain amount of expense

A.—Municipalities now-a-days ought to be allowed as much local management as possible

The Maharajadhiraja Bahadur of Burdwan Q.—If you make it provincial, the provincial Government would be able to allocate the proceeds as circumstances required From that point of view, any entertainments tax should at the present moment be provincial

A—Yes, but I think the proceeds ought to be allotted to the municipalities

The President Q—Sir Campbell Rhodes, would you explain in rather more detail your reply to questions Nos. 28 and 29?

Sir Campbell Rhodes A.—Owing to very great pressure of work, I could not submit my views in the form of a memorandum. This question of the taxable capacity of the people and the poverty of the country was touched upon by very many of the witnesses before the Indian Fiscal Commission with whom I toured round the country. The view I hold is not one generally held by

my Indian friends It is this · the Indian raiyat spends a very large amount, which is not proportionate to his income, on luxuries I would take these luxuries under four heads: *firstly*, the enormous influx of gold and silver into this country is obviously a luxury which, like many luxuries of the European, becomes a necessity owing to social customs; *secondly*, early marriages, in which a man necessarily enters into many more obligations than the man who remains single; *thirdly*, the large number of dependants who are willing to depend on the wage-earner of the family, and *fourthly*, the large amount of leisure which the average Indian cultivator gets The people themselves seem perfectly satisfied in their ignorance with this state of affairs, while politicians who have more advanced ideas have come to the conclusion that they should be roused from their lethargy into a higher standard of living It seems to me that the politician wants it in two ways he wants a higher standard of living for the people, at the same time, he wants them to escape when it comes to a question of taxation He cannot have it both ways I consider that people ought to be taxed for their own good Take an illustration The doubling of the Salt tax at the present moment would enable the Central Government entirely to wipe out the provincial contributions In other words, to levy a charge of 6 or 7 annas per head of the population would allow about 7 crores of rupees to be spent in the provinces for sanitation, better roads, better education, etc To leave this 6 annas in the hands of the individual is useless. If you take it from him, it represents in the aggregate a very large sum which could be spent for his good It seems to me that the point to be considered is whether you should not tax the man and leave him in his present state, or tax him against his will and devote the proceeds to the development of the country The individual in this country is living, as in any northern clime he could not possibly live, on small areas of land assigned to a large family with a small number of working hours, early marriages and the expenditure on ornaments and other social customs

The educative effect of direct taxation is very great The raiyat in Bengal cannot be expected to give direct taxation cheerfully for protection of the North West Frontier. Only the educated man understands that, the raiyat does not. Indirect taxation, to my mind, is the best form of taxation for a large portion of the central revenues and possibly for the provincial revenues also in theory. But when it comes down to districts and villages, I personally advocate educating the people politically, and it would be a good thing to levy a chowkidari tax and a road cess in order that people might see the direct results of these taxes

As regards the methods of direct and indirect taxation, I advocate moderate import duties widely distributed, so that they may have no protective effect The moment you get protective effect, the cost of collection goes up The cost of collection of an indirect tax, such as customs duty, is always regarded as very small The cost of collection of a duty on imported piece goods is regarded by many as a fraction of 1 per cent, but as a matter of fact, it is nearly 66 per cent Taking it more broadly, if a person in the country buys one yard of handloom cloth, one yard of Bombay mill cloth and one yard of imported cloth, he pays his tax on all three, but the Government get the advantage of only one Therefore, if you are going to have high import duties for revenue purposes, it is very essential that you should either choose things which are not manufactured in the country or else choose a few articles which are manufactured in large quantities in the country in one centre and put on an excise duty as well If you want to protect an industry, like the cotton industry, it is entirely a different question You can put on a consumption tax that consumption tax should extend even to the handloom but personally I do not advocate taxing handlooms in India The conclusion I have arrived at is that indirect taxation like import duties should be widely spread Where luxuries are concerned, I do not mind if the duty is raised somewhat high especially on luxuries which are not manufactured in the country But after all, every commodity is a raw material for some other commodity, and it is not possible to name a single commodity that is not a raw material In Bengal there was a great demand for extra police, but people were unwilling to contribute to the cost If they were made to contribute to the cost, the control must still entirely rest with the provincial Government; there can be no coupling of representation with taxation in that case. *Payment of taxes is a hardship, but I regard it as a hardship which should be increased, so that you may compel a man to improve* his condition

Q—I should make it clear that our function is not to propose increased taxation; the duties imposed on this Committee limit them to proposing re-adjustments within the existing amounts.

Dr Hyder *Q*—Don't you think that the large amount of leisure which the Indian cultivator enjoys is due to the nature of his calling? In a country in which the main occupation of the people is agriculture, the man who follows agriculture will have a large amount of leisure as compared with a country where the people work ceaselessly at machines

A.—In so far as a man has to work very much harder at certain seasons than at others, *e g*, the time of harvest, I agree with you; but where many men are doing the work of one, your argument would not apply

The President. *Q*—If the cultivation were more intensive, as in Japan, and more capital were put into it, it would provide more labour?

A—That is so

Dr. Hyder. *Q*—I want you to consider whether this proposal of spending more money on better sanitation and a better standard of living would not tend to the increase of population? Early marriages and dependants are not the only factors

A—Late marriages would reduce population Increasing the standard of comfort lowers the birth rate

Q—What I say is that there may be a variation in the birth rate independent of the age at which people marry. You may say that a higher standard of life tends to restrict the growth of population But the whole fact is psychological, whether the people exercise a conscious influence which tends to restrict population. It is not entirely due to the raising of the age of marriage nor is it due to the raising of the standard of life The whole thing depends upon the will of the people—whether they restrain themselves deliberately from increasing the population. If there is no war and there is security against famines, and if your suggestion were adopted, and the Government obtained more money from the people in order to spend it on sanitation and for bringing medical aid right into their homes, that is a different point. But whether that would restrict the growth of population or on the other hand whether it would increase the growth of population is to be considered Education also will raise the standard of life

A.—I do not think that population will necessarily be increased on account of the raising in the standard of life Education will restrict the birth rate and will also keep the people vigorous

Q—But people who are vigorous do not consciously restrict the increase of population. You cannot get out of the fact that there would be an increase in population

A.—I would not go so far.

Q—Then with regard to gold and silver, do you think that the share which goes to the cultivator is much or that there are other classes in the country who consume more gold and silver? Look at the position of the cultivator who is the tenant of a zamindar. The Government takes land revenue from him and he has to meet other charges. Do you think that he is still left with a substantial margin to indulge himself in such luxuries?

A—I can speak with some knowledge with regard to certain parts of India and I do think that the desire for silver and gold is very widespread. It is a common thing to see a cooly woman in Darjeeling with Rs 20 or Rs. 30 strung round her neck as a necklace I think the enormous influx of gold and silver is being very widely distributed in the country.

Dr. Paranjpye. *Q.*—Do you think that the accumulation of gold and silver as such would be reduced if banking facilities were greater?

A.—Yes; and it is more regrettable if a man has savings and is creating capital which he does not use

Q.—How much do you think is saved by each man in this way?

A.—I have not got figures; but it is very easy to work out the actual amount per head if you take into account the production in the Mysore and other mines and the total population. There will be enormous funds lying idle which, if released, would have a material effect on the country.

Q.—You told us that you would advocate taxing the people in order to provide for better comfort and a higher standard of living Do you think that the rich man is taxed according to his ability to pay?

A.—That is why I raised the question that the poor man spends a large amount on luxuries.

Q.—For instance, take a rich man He spends much on drink, rich clothes and other costly things. The poor man spends it on jewellery It all depends upon the way in which he considers that amount, whether it is available for luxuries or not. After all the amount available for a poor man for these purposes will be a rupee or two Don't you think that the rich man must be taxed first before the poor man is taxed?

A.—I am quite alive to the fact that the rich man should be taxed to the hilt. But in this country the poor man numerically so predominates that you cannot get as much taxation as you want for the country without imposing it on the poor man

Q.—But there are optional taxes which you cannot pass on to the poor man, for example, drink, motor-cars

A.—As regards drink, I advocate taxing it It is not only a luxury, but a luxury which is detrimental to the vitality of the population Therefore I would tax it

Q.—What about rich clothes, for instance?

A.—Of course, it cannot be passed on to the poor man

The President. *Q.*—Your policy is to increase taxation in order to help the people to have a higher standard of life?

A.—The people are not competent to raise the standard themselves and you have to take charge of them, and for their good, increase the taxation and spend the resulting aggregate savings on helping the people

Dr Hyder *Q.*—But is there not this danger that if people do not know what to do with their surplus, and that surplus is taken away from their hands by way of taxation, then the people will become spiritless and the very danger against which you want to provide will arise, *viz*, that there will be a lower standard of comfort and the people would begin to say "what is the good of our working hard when the proceeds of our work are taken away by the Government"?

A.—I can answer that point in this way The Central Government really wants to take the minimum for the central revenues The provinces should do the same, perhaps they should take a little over the minimum You have also got the district board and local board taxes Now villages also should be taxed and the people would see the results We should make them a responsible people. Then, I would like to see private endeavours stimulated by grants both from the provincial revenues and from the district board revenues to help dispensaries, schools, etc, which are sometimes built to be named by the donor after some member of his family, and thus encourage the building up of what we call in England "the local magnate"

Dr Paranjpye *Q.*—You say that there is the customs duty on cloth and cotton and owners of the Bombay mills and the handloom weaver make money. that money is not taken by the State It is distributed among the people

A.—That is my point It is a matter of collection. Out of the three rupees, two rupees go to the people and the State collects one Therefore, its cost of collection is 66 per cent If it is a big industry, you may protect it and

thus have temporary loss for a future gain, or else we have to go on with uneconomic manufacture, in which case the cost of collection has gone up to 66 per cent

Q—If the cost of mill-made goods is too high, the hand mill industry will be encouraged and people will produce more; consequently, there will be a limit to the duty.

A—Yes

Q—You may put a certain tax on the profits of the mill owners That is the way to tax if the country considers these industries to be important

A—The question is whether you want the man to manufacture uneconomically. If you want him to manufacture temporarily uneconomically until he is able to compete on equal terms with the more able organisations of other countries, then you can have the temporary loss

The President. Q.—Withers says that of all forms of taxation, the worst are those imposed on imported articles without a countervailing excise Is that your view?

A—That expresses my view

Q—May we come to question No 49? What do you think of an excise on aerated waters?

A—Aerated waters are a luxury and I have personally no objection to have a tax

Q—Would it be practicable to collect the tax by imposing it upon the cylinders of carbonic acid gas?

A.—If you don't interfere with their other uses, you can tax them As regards benzine, it is already taxed and I do not advocate a large tax on it There is then a large group of lighting articles, candles, etc., and I think they should not be taxed They are largely necessaries

With regard to paraffin oil I do not mind a small tax, though there are alternatives to it

The question of sugar is so much mixed up with the protection point of view. Sugar is most uneconomically produced in India It is tied up with your land revenue system. You cannot have economical manufacture of sugar unless the mill has control over a large area of sugarcane crop, but you cannot compel the raiyat to produce sugarcane. I personally do not advocate an excise at present When it is produced economically, I think it would be good to have a small excise on it

I would have absolutely no tax on coal

I would put an excise on matches. With regard to motor-cars. commercial and ordinary touring cars should not be taxed They increase the efficiency of the population very greatly.

Dr Hyder. Q—The loss to the district roads is negligible so far as the better class motor cars are concerned But these large lorries engaged in the work of production tear up the roads and put the finances of the district boards in disorder

A—That is a question of taking money from the man for damaging the road It will be a kind of fair charge for use of the roads and it will be part of the cost of production.

With regard to patent medicines, I should certainly tax them by stamps—both local and imported.

Perfumeries, etc, are luxuries and they can also be charged by stamps. If you can have it on the local consumption, then it is a economical tax

I would not have any duty on soap; it is not a luxury.

I would have a duty on tobacco.

The President. Q.—Have you considered the means of levying the tobacco tax?

A.—I am afraid I cannot say anything on it.

Q—We are told that the cultivation is widely spread, so that an excise is impossible At the same time an acreage duty would be strongly objected to. The only possible scheme seems to be to sell the monopoly of vend in an area and to couple with that a limit of private possession and a license fee for traders so that the cultivator would have to sell his tobacco either to the monopolist of the area in which he lives or to the monopolist of another area, or to a licensed trader or exporter

A—I would rather not express a view : but I may say this A heavy import duty and no excise results in an economic loss to the country People would be encouraged to grow tobacco when it was not economic to do so

Q—Your proposals on the Bengal Retrenchment Committee involve the transferring of functions to local bodies

Sir Campbell Rhodes *A*—Personally I am against any top-heavy system It is much better to get down to the villages and train the intelligence of the villagers It is an advantage to the village from the material as also from the educational point of view

Q—You don't see any danger in the local bodies in the province undertaking these functions

A.—The spirit of competition would benefit them

Q—The result of the recommendations of the Bengal Retrenchment Committee would be that the local bodies in Bengal would undertake certain functions which in the other provinces would continue under the Local Governments

A—That is an administrative question with which I am not competent to deal

Q—You then refer to the chowkidari tax

A—The position in Bengal is that a large number of extra thanas have been created and the Retrenchment Committee suggested that they should be cut down. It seems to me that if one district is to have the advantage and another not, then the direct relationship between taxation and cost per head will be emphasised But there cannot be control over the police by the district boards

Q—You did have that question raised in the Calcutta Police Rates Committee?

A—Yes

Q—Am I right in saying that the proposal was turned down?

A—I do not want to give control of the police even to the Calcutta Corporation In principle I approve of it, but in practice I do not

Q—Would you advocate a police rate?

A—I have no objection to a police rate Speaking entirely for Bengal, we have to pay a very large sum in Calcutta to produce that enormous prosperity, on which, in the form of customs duties and income tax, we pay to the Central Government The cost of production falls on the Local Government and the result falls to the Central Government

Q—Would you make it optional to particular districts or would you make it a general rate?

A.—I should be inclined to have it as a graduated tax to suit the requirements of the locality

Q—To that extent it would be optional?

A—It would be optional and educational.

Q—The English system of income-tax with a single rate and allowance to everybody seems to work out with less complication than the Indian system with varying rates

A.—Yes.

Q.—Would you recommend an allowance for a family as in the English system?

A.—Family allowance in India is an impossibility. In India ordinarily every earning member maintains many relations who do not work.

Dr Paranjpye. *Q*—Would you limit it to wife and children?

A.—There is adoption

Q—Would you give an allowance for children attending school?

A—That would lead to complications Two thousand rupees is a sufficiently high limit to cover all these.

Mr. Corke. *A*.—In this connection, I should like to say that I realise that something may have to be done in respect of the tax on profits put to reserve Sir Basil Blackett's budget speech mentions a bad case and I think something must be done But the great difficulty is what is a reasonable amount that can be permitted to be put to reserve. That is the trouble we had in England also One man companies pay income-tax and super-tax, but escape the graduated tax running up to several annas in the rupee

Sir Gordon Fraser. *A*—Sir Basil Blackett referred to an instance in point and promised legislation on the subject.

I do not think it is a sound principle to tax companies to the extent of 6¼ per cent of the profits as compared with the private firms A number of people do business under fictitious names and I know of cases where a single individual conducts two or three businesses under different names. In preference to the present system, a reasonable limit, beyond which the profits could not be transferred to reserve, might be fixed If a company fails to distribute a reasonable portion of the profits, then the undistributed profits may be charged at the maximum rate Traders should be induced to trade in the form of registered companies. If the registered companies are heavily taxed, it would affect the free flow of capital, especially in a country like India where capital is absolutely necessary.

The President. *Q*—In cases where you charged one anna, would you allow refund in the case of shareholders who had paid super-tax?

Sir Gordon Fraser. *A*.—Yes, but I prefer the Home procedure

Q—Then you are not for a graduated tax?

A.—In cases of bogus companies it would not do. My first proposal is definitely that the super-tax on companies should go, and that the Indian Companies Act should not handicap the registered companies in competition with the private firms If, however, for any reason you want to keep on the one anna tax, keep it on, but allow the shareholders to apply for refunds.

Q—You should be charged the maximum rate. Is that your proposal?

A.—The income tax at maximum rate The present rate of one anna super-tax is unnecessary.

Q—You think that the Indian super-tax on companies in its present form should be abolished?

Sir Gordon Fraser. *A*.—Certainly I see no reason for handicapping a limited company to the extent of 6¼ per cent of its profits as against a private firm. As I have said, it would be possible to follow the Home procedure and enact that when a limited company fails to distribute a reasonable portion of its profits by way of dividend, the whole of the undistributed profits should be liable to super-tax at the maximum rate

Sir Campbell Rhodes *A.*—There would be strong objection with regard to refunds Probably the only thing we can expect is legislation against the bogus companies. It should be decided on the merits of the case. I think you will be able to find some method to get out of this difficulty It is a distinct injustice to the companies that they should be taxed more heavily. I do not see the reason why they should be taxed more severely

Q—We will now take the question of the division of the proceeds We are asked to report a suitable basis for a theoretically correct distribution of taxes between the provinces and the Central Government on the basis of a federal system Professor Seligman has put forward the possible plans under five heads and recommends a combination of the second, third and fourth You will find details in question No 147 It will be for the Government to settle the details, we are trying to arrive only at a better method of division

Sir Campbell Rhodes *A*—The only subjects in which the commercial community would have any interest are commerce and industry They should be absolutely centralised I would say, for instance, that the jute tax, which is a dangerous tax, should not be divided between provincial and central Jute can bear a small tax Shellac might bear a small tax We are misled by the theory of monopoly. These monopolies are conditional in that there are many things that can be substituted for shellac or jute I am against keeping any of these taxes provincial As a matter of fact, the jute tax has reached its maximum. Therefore, I am very much in favour of keeping it away from the provinces But in the case of income-tax, where the figures are so extraordinarily striking, it can fairly be divided with the provinces, for the improvement of provincial subjects, such as police, hospitals, education, etc In the case of income-tax, some sort of arrangement may be made to utilise the revenue from this tax for provincial subjects

The Maharajadhiraja Bahadur of Burdwan *Q*—I take it your idea is that a portion of the income tax should be transferred from the Central to the Provincial Government You think the income-tax payer is not necessarily a man who either directly or indirectly contributes to what is known as the nation-building departments In other words, you have no special liking that this large demand that is received from a class should only go to the transferred departments?

A—I think anything that goes to the provinces does go also to the transferred departments I do not like to earmark this for any particular object

Q—You have no personal feeling on that point? As the commercial community is paying a very large amount of income tax, you would not like to make any stipulation that the money should be spent only on special objects You would allow it to go to the general revenues

A—I see your point I was right so far as I said that my personal idea is that the provinces should have some benefit of this tax But the European commercial community is very strong on the point that all these taxes are levied on Europeans and not on Indians If an Indian wants to falsify his income-tax statement, he will have simply to say that he does not keep accounts I have come across brokers in Calcutta who take commissions in cash without keeping any books and they are making Rs 2,000 or so a month They have never been touched If I do not keep accounts, you will at once run me in

The President *Q*—Professor Seligman has put forward three ways We are trying to apply one of these plans to each tax What plan would you apply to land revenue?

A—It must go to the provinces

Q—Then as regards customs what are your views regarding import duties?

Sir Gordon Fraser *A*—I would like that import and export duties should be put entirely in the hands of the Central Government I think it is always the case that the Central Government has got a broader outlook

The President (to Mr Cocke) *Q*—Do you agree?

Mr. Cocke *A.*—I personally think that there ought to be some division in taxation, so that Assam should get some benefit from its local export duty on tea in the same way as Bengal gets some interest in the amount of income tax that it collects

Q—I am on the question of export duties

Sir Gordon Fraser *A*—I always thought that Bengal had a good case in the jute tax, but I quite see that a tax like that would be much better if it is controlled by the Central Government

Q—Sir Campbell Rhodes' point is this · the duty ought to go to the Central Government, because there will be no pressure brought to bear to increase it.

A.—Quite It certainly seems to me that the export duty on jute is after all a form of land revenue. Similarly, in the case of the export duty on rice in Burma, whether it is controlled by the Central or Provincial Government, the province particularly concerned should benefit to some extent

Dr Paranjpye *Q*—Don't you think it is a vicious principle?

A.—On broad principles, I think import and export duties should be central

The President *Q*—In Bombay, actually a cess is levied on cotton which operates, in so far as it is exported, as an export duty

Sir Campbell Rhodes *A.*—We have got a cess on jute too I distinguish between a small cess for the improvement of a city and a duty which varies from year to year

Q—Regarding income tax, do you agree that there should be division of some sort?

Sir Gordon Fraser. *A*—Bombay and Calcutta collect more income-tax than Madras It must be borne in mind, however, that in Madras we recover no income tax from banks and insurance companies Most of the large firms and banks in Madras are branch offices and the income tax of these as well as of the insurance companies, shipping companies, etc, are paid either in Calcutta or Bombay Therefore, the Madras figures for income-tax are low.

Q—You are not radically opposed to any scheme of division?

Sir Gordon Fraser *A.*—I am not, as long as we get due credit for the tax collected elsewhere on Madras business

Q—May I take it that there are two methods of division? One is to allow each Government to impose its own rate and the other is to have the rate centrally imposed and the yield divided. The advantage of the former method is that it enables the Local Government to use the tax to balance its budget

A.—I think the rate must be uniform for the whole country

Q—Then how can you arrive at a reasonable method of division?

A—You must arrive at a reasonable allocation for the different provinces

Q—But how are you going to decide who is to have the tax? For example, the Tata Iron and Steel Company, at Jamshedpur, is managed in Bombay and is situated in Bihar

Sir Campbell Rhodes *A*—It would be impossible to say offhand what the proportion should be between a tea garden and its managing agents; but it won't be difficult to lay down principles

Q—You would all agree that we ought to try for a scheme of division with reference to the share of responsibility borne by the different Governments?

A—Yes, for income-tax only.

Q—I am sorry that Sir Percy Thompson is not here to-day If I can get him to give you the result of the discussion with Northern Ireland, would you be prepared to give us a note on this subject? He is rather inclined to think that division is not practicable in India Your opinion is that we should arrive at some scheme of division.

Sir Campbell Rhodes *A*—The point of view of Bengal is that some means must be found

Q—In the case of excise, that on hemp drugs is getting very near to a monopoly. You have almost uniform rates and uniform systems in administration Have you any objection to their being made a complete monopoly with the duty to follow consumption?

A—I have no objection to that

Q—At present, hemp drugs are grown in Bengal, Bombay, the Central Provinces and Madras Each place is apt to get into difficulties with a ring of cultivators who put the prices up Bengal is charging Rs 245 a maund for what ought to cost a quarter of that If you had a central monopoly, the rates would be uniform

A—Yes

The Maharajadhiraja Bahadur of Burdwan—If you make the rates uniform, Bengal would get less revenue

The President *Q*—The cultivators grow the stuff and the stuff is bought through the Government from the cultivators The ring of cultivators puts the prices up and it goes into the pocket of the ring

Locally-made foreign liquor is a difficult problem whether it is whisky, brandy, gin or rum Imported liquor is free of the ordinary restrictions of transport, you do not have to get pass Locally-made foreign liquor has hitherto been similarly free from these restrictions, but since the reforms, excise being under the control of Local Governments, there has arisen competition The duty on locally made liquor goes to the Provincial Government, while the duty on the imported liquor goes to the Imperial Government If a Local Government treats locally-made foreign liquor as country liquor and insists on passes, it becomes illegal to carry more than one bottle without a pass from one province to the next

Mr Cocke *A*—Is it not obvious that excise generally speaking, must be made a central subject?

Q—The duty on country spirits has always been regulated with reference to the facilities for illicit distillation The duty goes down as low as 7 annas 6 pies and as high as Rs 20 and varies from district to district This does not apply to locally made foreign liquor I wanted to take the first step of levying an excise on locally made foreign spirits at the tariff rate and administering it centrally

A—Yes

Q—Where you cannot get it uniform would you approve of a basic rate? The policy has always been to push your duty up as far as you can without provoking uncontrollable illicit distillation The only thing we can suggest is that you might try a basic rate, which should be uniform throughout India give that to the Central Government and let the Provincial Governments add to it Only, if one province went dry, it would be contributing less than another

Sir Gordon Fraser *A*—It certainly seems the fairest suggestion

Q—Supposing death duties were imposed, should they be uniform and central?

A—They ought to be centrally imposed at a uniform rate

Q—And the proceeds divided like income tax?

A—We think so

Sir Campbell Rhodes—There is a strong body of opinion that death duties are a tax on capital, and therefore they ought to go to a reduction or avoidance of debt

Q—The fact that the revenue would go to the provinces does not mean that they would not apply it to the reduction or avoidance of debt

A—We should have a uniform rate throughout India; otherwise complications would arise and I think probably in the same way as income-tax, if a very large income is derived, provinces would get a share of that for the reduction or avoidance of debt.

Dr Paranjpye. *Q*—*Suppose a man insures against death duty, would it* still be a levy on capital?

A—Yes All capital is savings out of income

Mr Cocke—It is rather introducing an unnecessary complication to say that it must go for the avoidance or reduction of debt It is not so in England I think it would be very much better to avoid or reduce your debt on a fixed basis

Q—It has been urged by witnesses from Bengal that death duties are specially appropriate to that province, because undoubtedly they would fall largely on the landlord and form a compensating tax to the permanent settlement, to which he cannot object

A—I would put it on the same basis as income-tax.

Q—I [illegible] you said that an excise on aerated waters, matches and patent medicines [illegible] go to the Central Government; how would you be able to all[illegible]?

A—I would treat these excises exactly in the same way as the import duties

Q—[illegible] been told that a good deal of difficulty has arisen on account of [illegible] localization of stamps particularly general stamps For instance, one [illegible] has a proposal for stamping its own cheques A bank may stamp all the [illegible] at Calcutta and distribute them. Even in the case of share transfers between two inhabitants of the same province, the stamp duty goes either to Calcutta or Bombay, and really the present arrangement does not give to the provinces their fair share, also it leads to anomalies through every province [illegible] its own rate of stamp duties, so that documents stamped in one province [illegible] to be stamped additionally if presented in another province Don't you think it would be better if the rates of stamp duties were central?

Mr Cocke *A*—My own view is that I would rather see stamps as a central subject.

Q—[illegible] would not even divide the proceeds?

A—No

The Maharajadhiraja Bahadur of Burdwan *Q*—Some provinces who have enhanced the stamp duties are getting an income from this source If stamps be [illegible] central, how would you supplement their budgets? In other words, you [illegible] take away the stamp duties and give as much as they get from them [illegible]?

[illegible] I see the objection to divided heads I would strike a line a[illegible] income-tax the chief head

[illegible] Only so far as the yield is concerned Formerly, divided he[illegible] nt division of expenditure as well as division of the revenue

The President *Q*—Under the old division of heads, what was divided was [illegible] of taxes which were fixed in many cases at the discretion of the [illegible] ernments Under present circumstances, you would not divide anything unless it was at a uniform rate for the whole of India?

A—[illegible]

Q—You would not divide stamps?

A—I personally would not for the reason that the revenue is collected in one province while it is actually due to another province Also, I do not believe in divided heads

Q.—Suppose the Central Government impose a uniform rate just as they do in the case of income-tax. The question is whether you should attempt an arbitrary division and apply that to stamps You want both the provincial and Central Governments to get as broad a basis as you can?

Sir Campbell Rhodes *A*—Would not Calcutta and Bombay object to give them something more?

Q—If you arrived at the theoretically best method of division, then it should be left to the Imperial Government to determine the shares, the Central Government would first take the amount needed for its purposes and the remainder would be divided between the provinces in proportions determined by skilled accountants Would you apply the same principle in the case of stamps?

A—It would apply if the Central Government had enough money and the provinces were going short

Q—Then the Central Government would reduce its share

A—I see no objection to dividing some of the proceeds

Q—The Central Government is very largely dependent for its revenue on customs and income tax In order to balance its budget, it has been forced to the position of putting up its customs rates when trade is falling off. Ought it not to depend on something less fluctuating for its revenue?

A.—I agree to dividing stamps, income tax and death duties

Q.—Would you revise the definition of a court-fee? A bill of entry has to bear a court fee Actually the provincial Government is levying a tax or a fee for services performed by the Central Government

A—That should not be

Q—It comes to this that you recommend separation of sources of revenue in the case of land revenue and customs, except possibly exports, and tobacco and division of yield in the case of excise, income tax, death duties and stamps

A—Yes.

Mr Cocke *A*—One question is very much bound up with this, viz., are you going to have a fixed basis or a changeable basis? If you fix the Punjab as requiring Rs 50 lakhs from the Central Government, it may be sufficient for one year and inadequate the next The question then arises whether you cannot have some independent tribunal to review these contributions periodically

Q—What we should try to arrive at is two fractions, one would be the fraction of the whole which the Central Government would take, the other would be the fraction of the remainder which would go to each province

A—Indefinitely without change?

The President *Q*—Would it not be practicable to have a five yearly settlement by some independent authority?

Sir Campbell Rhodes *A*—One factor would have to remain constant But the other factor should clearly be modified from year to year They would either reduce the tax and relieve the tax-payer or pass part of their share to the province I do not see the difficulty of adjusting it every year, because even under the present system the provinces are entitled to a part of the income tax

The Maharajadhiraja Bahadur of Burdwan (*to Sir Gordon Fraser*) *Q*—In reply to question No 38 you say "it seems to me that the taxation of agricultural land in my own province of Madras is on so high a level that it can justly be said to include any amount that might otherwise be imposed as income tax" Do you mean to say that the level of land revenue there is such that you don't think any income tax on agricultural incomes would be justifiable?

A—Yes

Q—Then you go on to say "This, I understand, is not the case in other provinces Another difficulty is the fact that land revenue is imposed by the

Provincial Governments, whilst income-tax is imposed by the Central Government. It seems to me that as a first step, before imposing an income-tax on incomes derived from agriculture, it would be necessary to bring the land revenue tax in all provinces to an uniform level."

A —By "uniform level," I did not mean exactly the same amount of rupees, annas and pies. I meant the tax should be imposed on a uniform basis

Sir Campbell Rhodes. *A.*—Taxation on agricultural incomes in permanently-settled provinces, if it goes to the Central Government, would be no relief to the provinces

Q—We are not now discussing whether it should be central or provincial We want to know whether it is possible.

Sir Gordon Fraser *A.*—As regards Madras, if the land revenue is on such a high basis, it would obviously be impossible to impose income-tax also.

The President. *Q*—What are the views of the Chambers of Commerce on the suggestion of publicity in respect of income-tax assessments?

A.—Against it.

Q—We were told that this would help to bring out other people and it would improve the collection of the revenue

A.—Mr Cocke's suggestion with regard to publication might be adopted

Q—You are in favour of having a standard form of accounting?

A.—Yes

Q—You suggest stamp duties in respect of share transfers

Mr. Cocke *A.*—Yes. A share is transferred from the first to the twelfth hand and the intermediary persons do not pay anything

Q (*to Sir Gordon Fraser*).—With regard to succession duties you say "I consider the inheritance or succession duties are inadvisable owing to the difficulty of dealing with the Hindu undivided family. It would not be fair to introduce new taxes which could not be applied equally to all communities." But is it not very unequally applied now?

A—Then the position would be still further aggravated There is great difficulty now in administering the income-tax fairly, and this, if introduced, would be another tax which could not also be administered fairly.

Q—The European, the Parsee, the Jew, the Christian, etc, pay probate now

A.—It is not compulsory to take out probate.

Q—The Civil Justice Committee is dealing with the question One of their proposals would be to reduce every testamentary document to writing

A.—If it could be done profitably and without difficulty, it may be done.

Q—With regard to salt, you prefer free trade and no Government monopoly? Do you object to the present Government monopoly of half the salt?

Sir Campbell Rhodes *A.*—I think that in the interest of the consumer he should get good quality of salt and I don't think he can get it under monopoly.

Q—Suppose Bombay and Madras were able to supply Calcutta with salt satisfactory to Calcutta, would you advocate a subsidy?

A.—I do not see why Calcutta should not have the benefits of its first class salt.

Q—I was only asking whether it would be fair at least to attract this salt into the godowns by giving favourable terms

A—That is a question for the Tariff Board But personally I think that in the interests of the consumer, he should get his salt as cheaply as possible

3rd March 1925.

Delhi.

PRESENT

SIR CHARLES TODHUNTER, K C S I, I C S, President

The Hon'ble Sardar JOGENDRA SINGH

Dr R P PARANJPYE

Dr L K HYDER M L A

Diwan Bahadur C. V. VISVANATHA SASTRI, M. L. A., District and Sessions Judge, was examined.

Written memorandum of Diwan Bahadur C. V Visvanatha Sastri.

Questions 137 to 146.—If need arises for new sources of taxation, it appears to me that "duties on inheritance or succession," should be imposed As stated in the statements of objects and reasons to the Madras Bill, "the State which makes it possible for fortunes to accumulate and property to be safeguarded," is entitled to have a share in it As a matter of fact, duties levied on succession certificates and on probates of wills and letters of administration, under the Succession Certificate Act, and Probate and Administration Act read with the Court fees Act are nothing but duties on inheritance or succession The Succession Certificate Act applies only to "debts" due to a deceased which his heir seeks to realise and a succession certificate is not needed for succeeding to immovable property, and to various other kinds of movable property As Hindu and Muhammadan wills need not be probated, and as it is very rarely necessity to take out letters of administration to the estates of the members of these two communities, the State at present gets almost nothing from those communities under the Probate and Administration Act On the other hand the Indian Succession Act which applies to Christians, renders it obligatory for members of this community to take out probates of all wills, and to take of letters of administration to the estates of persons who die intestate. I may here mention that the Succession Certificate Act does not apply to the presidency towns, and in the case of Hindus and Muhammadans residing in the presidency towns, it is necessary for them to apply for probates and letters of administration A succession certificate can be obtained with respect to each debt due to the deceased, and under the Act a certificate once obtained with respect to a particular debt, can be extended to cover another debt, and so on, *ad infinitum* This facility is a source of great loss to the State as an heir gets a certificate for collecting one debt, and on the strength of it, claims the right to collect other debts, not included in the certificate, without recourse to law Debtors find that his claim to one debt being recognised, nothing will stand in the way of his claim to other debts being also recognised; and that they gain nothing by insisting on the production of a certificate. They adjust the matter by sharing with the heir the amount of the stamp duty that should go to the State

Probates of Wills and Letters of Administration must be obtained with respect to the whole estate. This means that all the debts due to the deceased have to be valued, and included in the Probate or Letter of Administration; and duty has to be paid with respect to all the debts. Similarly, all other movable and immovable properties left by the deceased, have to be similarly valued, and duty paid. To defeat the provisions of the Probate and Administration Act, I have known of cases in which eminent lawyers practising at Madras, have made Wills when outside Madras. Some of them left several lakhs, and their estate escaped paying even a single copper to Government.

There, therefore appears to me to be no reason why estates of Christians should be held to feed Government officers, and estates of Hindus and Mussalmans being allowed to escape.

While admitting therefore the necessity for tapping this field of taxation, I am emphatically of opinion that the taxable limit must be placed as high as possible. The remark of Sir James Stephen, referred to in question 143, has great force in it. It appears to me that the limit contained in the Madras Bill should be accepted.

The tax should be collected by the Federal Government through the agency which now collects the Income-tax. The present sympathetic Income tax Administration is beginning to carry the people with it, and this agency should not be discarded.

The tax should be graduated. In the case of Hindus, it must depend on the degree of relationship; and in the case of Muhammadans with the amount inherited by each heir. My reason for this differentiation is that shares vary among Muhammadan heirs (females also being sharers), whereas among Hindus, those in the line of next heirs all share alike.

Any schedule of rates framed must be of the simplest nature possible; and so far as Hindus go, I would adopt the scale contained in the Madras Bill. There might be one schedule of rates for Muhammadans and Christians, for, there is some similarity in their rules of inheritance.

The tax *should only be* on the share of the deceased which is inherited by his heirs. I am against taxing the whole property of the family on the decease of each managing member, for, in a Hindu joint family all adult members earn and their earnings are thrown into the common stock, and in many cases the managing member earns least, and his position, as such, is due to the fact that he is the eldest. I am against any annual periodical levy.

The invalidating of transfers of immovable property will be one way of enforcing payment. This method will work considerable hardship in the case of movable property. In the case of debts due, there can be no difficulty because a debtor who pays a debt without a Succession Certificate can be held liable for payment of the tax equally with the heir who receives payment.

I have not given my views upon the various clauses in the Madras and Bombay Bills. A feeling seems to be expressed in some quarters to the effect that the Hindu system of joint-family and inheritance will be affected by the introduction by any such system of taxation. So far as Bengal goes, the law prevailing there is the *Dayabhaga* law which is quite different from the joint family law in Madras and the United Provinces and other provinces which follow the *Mitakshara*. There is no survivorship in Bengal as in Madras. In Bengal, members of a joint Hindu family are tenants in common, in Madras they are joint tenants. In Bengal, sons have no interest in ancestral property so long as the father is alive, and the father can dispose of it as he pleases. It is only on his death that it descends to his heirs; and if he dies issueless and leaving a widow, his widow inherits his share, even though he was a member of an undivided Hindu family. The permanent settlement has made Bengal landholders escape the rigours of the land assessment prevailing in the ryotwari tracts. Bengal, therefore, is a province which can least complain of this burden.

Joint families under the *Mitakshara* law are affected by the doctrine of survivorship. Sons have, from the time of conception, an interest in ancestral property; and if a member of the family dies without leaving male issue, his

share automatically goes to the other members, even though he leaves a widow and daughter. A seeming difficulty will arise in this case, but if the tax is levied on the share, the person, who is dead, would have got, had a partition been effected on the day of his death, this difficulty will disappear There is no charm about the word 'survivorship.'

In the case of impartible estates in Madras and elsewhere, no difficulty can present itself There is no question of any joint-family and there is only one heir. Zamindars in Madras are the least taxed among His Majesty's subjects, when you take into consideration the vastness of the property they inherit

I am of opinion that it is quite possible by amending the existing Acts, to raise the tax in question These Acts are worked by Civil Courts, and it is best to continue this machinery as it has been working well in the past Complicated legal questions will arise in many cases and they cannot be determined by the Revenue authorities

Suppose for instance, A dies leaving a widow and no issue His widow applies to be assessed, or is called upon to pay the tax and a third person comes in claiming to be the adopted son of the deceased If he turns out to be the adopted son, he will be the sole heir A Revenue authority is least fitted to decide on this question

Again, questions will always arise as to whether some properties are the ancestral or the self acquired properties of the deceased If self-acquired, no question of joint-family or survivorship can come in, and the value of property which will be the subject of taxation, will be more Property acquired with the help of ancestral property is not self-acquired, nor property acquired by a person, who has received special education from joint family funds Even Courts of Law have found it difficult to determine such questions

Again, questions relating to the validity of Wills are sure to arise for determining who is the next heir

For all these reasons, it will be best to continue the existing machinery Even at present when applications are made to Courts for probates and letters of administration, the schedules of property given are sent to the Collector and he has a right to be heard, and to prevent low valuations

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Diwan Bahadur Visvanatha Sastri gave oral evidence as follows :—

The President Q—You mention three Acts To what communities does each apply?

A—The Succession Certificate Act does not apply to Indian Christians and European Christians The Indian Succession Act applies to Indian Christians

Q—Does it not apply to Parsees?

A—No

Q—What is the Act that applies to Parsees?

A—There is no Act regarding succession, so far as I am now aware Under the Hindu Wills Act Hindus in the towns of Madras Bombay and Calcutta and in the Presidency of Bengal have to take out probate Under the Hindu Wills Act, section 187 of the Succession Act is applicable to the wills of Hindus Jains, Sikhs and Buddhists in territories subject to the Lieutenant-Governor of Bengal and in the towns of Madras and Bombay That is, if a Hindu *dies in* the town of Madras leaving a will his heirs have to take out probate or letters of administration with the will annexed

Q—Then the Succession Certificate Act would not apply?

A—It applies outside the Presidency towns If a Hindu dies in a place other than the Presidency towns and the territory subject to the Lieutenant Governor of Bengal then his heirs are not bound to take out probate of the

will, or letters of administration It is only in the case of debts that a certificate under the Succession Certificate Act is necessary. Even that is not compulsory. It is only in cases where the debtors refuse to pay the debt and the debt is put in Court that this is necessary. Besides these there are other provincial Acts for particular communities There may be an Act called the Parsee Succession Act but I could not find it in the library here.

Q—That will be an all-India Act

A—May be

Q—What about the Jews and the Brahmo Samajists?

A—Jews, I think, are classed as Christians They have to take out probate and letters of administration The preamble might say that it applies to Jews also

Q—Brahmo Samajists?

A—They don't come in at all.

Q—Anyone who leaves a will is liable to death duty?

A—Yes, if probate of the will is taken out If he does not leave a will he is not liable Even if he leaves a will, probate is not taken unless the debtor refuses to pay To avoid the provisions of the Hindu Wills Act, eminent lawyers in Madras go outside the Presidency town to execute their wills.

Q—Can you give us an idea of the reason why the Hindu Wills Act was made partial in its application?

A—I have not read the proceedings of the Legislature You have to read the whole proceedings of the Legislative Council

Q.—You mentioned that a succession certificate is required only to recover a debt in court

A—Yes You can get certificates piecemeal Supposing A has left debts to the tune of Rs 50,000, B, his heir asks the debtors to pay and gets a certificate in respect of a debt of one thousand rupees and establishes his title to it. In respect of the remaining amount it is expected that the court is bound to follow the original decision So the parties (heir and debtor) share between themselves the duty that will have to be paid to the State if the certificate is extended to the remaining Rs 40,000. Although the effect of the Act is to levy a tax, the preamble expresses anxiety to benefit the debtor by giving him security. We must change the preamble and definitely say "Whereas it is necessary further to tax etc"

Q—Writing wills outside the Presidency towns is a means of evading tax?

A—Yes But if it is in Bengal no one can escape. In Bengal the Hindu Wills Act applies throughout the Presidency. In other Presidency towns any one can escape by going to the mofussil to make a will These Acts were passed with the object of making revenue, but for some reason Government did not want to put it in writing The Court Fees Act is the only Act without a preamble Justice Mahmood said that Government was ashamed to say that they will tax justice

Q—Is it not a means of paying the establishment?

A—That theory has already been exploded. In Madras it is now said that the surplus should go to general expenditure. The money got from the civil courts is used to some extent for the maintenance of criminal courts The Committee must clearly say that succession duties must be a source of revenue

Q—Is there any other means of legal evasion such as the transfer of property by verbal wills?

A—Verbal wills are very rare and in the course of my 23 years' experience as a judge, I heard only 3 or 4 cases, and even they were found to be false

Q—Even now eminent persons transfer their property to their relatives during their life time

A—I do not think it is generally done When it is purchased in the name of the wife it is a gift and the object is a laudable one

Q—Will it not be an evasion?

A—That cannot be an evasion Even in cases where the property is purchased in the name of the wife, if the wife dies without disposing of the property, there may be a tussel between the son and the daughter and the matter may have to come to the court

Q—As regards the enforcement of any general law we were told that there must be an executor

A—Every will mentions the executor and probate is given to the executor Any other person can apply for letters of administration with the will annexed

Q—You don't think it is necessarily to have an executor?

A—There is generally no will without an executor It so happens in some cases that the executor dies before the testator

Q—In intestate properties what happens?

A—When the property is in the mofussil letters of administration are taken Even when the property is in Madras years later an application is made to the Collector for the transfer of the name in the Collector's certificate in respect of properties In the case of monies deposited in the banks generally the banks do not object unless there is opposition to withdrawal in which case they require a probate or letters of administration or a succession certificate

Q—You have recently introduced a Bill relating to insurance companies

A—In the Council of State a Bill will be introduced tomorrow It wants the definition of debt to include sums payable by insurance companies

Q—What happens when a Christian dies?

A—Even among Indian Christians an application for probate or letters of administration is made only when they are compelled

Q—Then there is no prohibition of transfer of landed property when a Christian dies?

A—You cannot say so because section 187 of the Succession Act says that no right as executor or legatee can be established in any court unless a court of competent jurisdiction shall have granted probate of the will or letters of administration

Q—Then you must say that this Act was intended for this purpose

A—There is no use of saying that it should be intended for the benefit of the debtor and for the Government to take two or three per cent of the property You must say clearly that these Acts are intended for revenue and nothing else Government has not done it and the Committee has to do it

Q—Do you agree with the extract from Sir James Stephen?

A—I could not catch the trend of the extract Sir James left the country 40 years ago and conditions have considerably changed since then In trade and at the Bar people make fabulous incomes and in the south of India the managing member of the family is in many cases simply a figurehead If they do not want to separate it is merely because of sentimental reasons

Q—You say that the whole thing can be done by amending the existing Acts Can you give us a general indication of the same?

A—Extend the Hindu Wills Act and make it applicable to all Call it Hindu and Muhammadan Wills Act if necessary and make it an all India Act applicable to all persons

Q—You say, amend the existing Act Would you group for purposes of duty Muhammadans and Christians together? Muhammadan wives have got shares

A—That is a matter of detail I will make the preamble wider and say "to all Hindus, Muhammadans, Jains, Buddhists, etc".

Q—Would not the Succession Act be more appropriate to Muhammadans?

A—There will be no difficulty in amending the Wills Act. It is only a matter of legislation Whichever is easier you may adopt I may mention that a new Act will lead to opposition and there will be the cry that religion is in danger If you only amend the existing Acts you can avoid a great cause for complaint. You may say "Why should a man living in the muffassal be in a better position than the man in the Presidency town? Therefore we only want to equalise the conditions Further we only want to widen the scope of the Act so as to make it applicable throughout India"

Q—You recommend the adoption of the provisions of the Madras Bill but you would adopt them by amending the existing Acts?

A—Yes

Dr Paranjpye *Q*—You agree as to the theoretical reasonableness of succession or death duties?

A—I think they are very desirable If you really want to raise money by taxation, this is the first avenue which has to be explored

Q—In England they have an Estate duty and afterwards a Legacy duty, also a Probate duty or duty on succession certificates

A—I do not believe you get any appreciable amount of revenue from the latter

Q—First of all, if there is any difficulty about the claim of any person to succeed, the Courts would have to decide it.

A—That will be done without any payment; there is no court fee in England

Q—Would you be opposed to the levy of two kinds of duties, an Estate duty and a Legacy duty?

A—I am not quite sure of the English law Supposing an Estate duty is first paid on the whole estate, are you quite sure that a Legacy duty is also paid? That means double taxation

Q—Call it double taxation if you like, but if you have only one duty, it would have to be pitched at a higher figure. Surely the Estate duty applies to the whole estate and the Legacy duty applies to the amount of the legacy. The use that a man makes of the existence of the State is obviously proportionate to the amount of the estate that is left Consequently, irrespective of who inherits it or who gets benefit out of it, the very fact that the man is enabled to amass that estate is due to the existence of the State and therefore I think Estate duty ought generally to be levied on the whole estate.

A—I quite follow your point The point is that if an estate is amassed by A, with which B, the legatee, has nothing to do, the existence of the State enables you to amass wealth You are bound to pay for what you leave, he is bound to pay for what he gets But I believe in the first instance it might appear as double taxation

Q—Double taxation is only a mere nominal objection, because if you have only one single duty, you will pitch it much higher.

A—Quite so

Q—Suppose a man leaves a lakh of rupees and so distributes it among a hundred people that each man gets a thousand The State would not get anything out of the property, because a certain amount is always duty free

A—Even in England they have a minimum; I think it is £100.

A.—The present rates are 2 per cent. and 3 per cent. I think you can have the same rates for estates up to Rs. 25,000 and then go on increasing. Even now under the Probate and Administration Act estates below Rs. 1,000 pay no fees.

Q.—In the case of Legacy duties, you of course agree that they should be regulated according to the degree of relationship?

A.—Yes.

Q.—In France they have various classes; in England there are only two or three. Do you think it would be wise to have a large number of classes in India?

A.—Here you don't have many legacies; the Hindu temperament is such.

Q.—If a distant relation succeeds for want of a heir?

A.—You can pitch the duty as high as possible. In the case of reversioners, I would even advocate half and half.

Q.—What about sons, daughters, brothers, nephews?

A.—I would put a lower tax on direct descendants and a higher one on collaterals. I believe in Bombay the sister also gets a share.

Q.—That is only among the Parsees; the custom does not extend to Hindus. How would you treat movable property, would you treat it in the same way as you treat immoveable property?

A.—There is a difficulty in the case of jewels. In Madras the mania for jewels is awful. One gentleman left his wife 3 lakhs worth of jewels; you cannot get an accurate estimate of value.

Q.—At any rate you consider that moveable property should be treated in the same manner and, as far as possible, care should be taken to see that no property escapes.

A.—I would treat it with even greater hardship because you are sure of getting some money every year.

Q.—What would you do in the case of gifts?

A.—I would have the same rule as you have in England—three years.

Q.—Would you not consider whether it is a *bona fide* gift or whether it is a gift for the purpose of evading death duties? If a man is very old, he gives away his estates probably in anticipation of his death, a comparatively young man of say, 45 may like to give something to his son in order to set him up in business. I do not think it is fair that *bona fide* gifts should be charged to death duties.

A.—Once you go into the question of *bona fides*, there will be no end.

Q.—I consider three years too long a period. In India particularly, I do not believe anybody does make disposals of his property three years ahead of his death.

A.—The modern tendency is not to do away with property till the last breath escapes.

Q.—Don't you think in that case one year would be enough?

A.—I think it would be rather too small. There would be more evasions in the one year period than in the three.

The President. Q.—You gave us the case of a rich man who disposed of his property many years before his death.

A.—Yes, he gave it on mortgage in the name of his wife. On the whole, I consider that at least a two years period is necessary, as in the case of insolvency.

Dr. Paranjpye Q.—Take this case: if in a joint family there is one person highest in rank, father or grandfather, then the whole estate should be chargeable on his death. After his death, the sons do not separate; when one of the sons dies, you would only charge his share?

A.—He had only a share in the property; if it is divided among all the sons, that would get over the difficulty about partition.

Q.—In this case the amount of duty recovered on the whole estate will be less?

A.—It may be less. But on what principle would you base it? What do you call it, estate duty or succession duty? You may call it a property duty.

The President. Q.—Could you tell me when the joint family system ceases to apply?

A.—It does not depend upon the number of sons the man has got. You have a father with three sons: after the death of the father each of these three sons gets his share in the property by law of survivorship. The father and the three generations below him get by the law of survivorship. The law of survivorship applies only to the son, grandson and the great-grandson. Other heirs get by inheritance or succession. Suppose there is A, his son is B, grandson C and the great grandson is D. There is no question of inheritance in the case of B, C and D, they get the property by survivorship.

Q.—Suppose they don't go in for a partition?

A.—Then they continue to be joint.

Q.—I am supposing a family that never goes in for partition at all, then it spreads out to infinity?

A.—It is very rarely that you get such a family where there is no partition at all. The modern tendency is to go in for partition. In such cases, you take the genealogical table and the last three generations are taken into consideration. Division is made not on a *per capita* basis. Partition takes place whenever you call for it.

Q.—Supposing nobody calls for a partition?

A.—I do not think such a thing will ever occur. Sometime or other it will have to be divided. Now-a-days the tendency is to divide. When the property is divided you will have to trace the common ancestry and then begin to divide.

Q.—To avoid too many claims on account of the estate duty, Mr. Wild, the Legal Remembrancer of Bombay, suggested that if the head of the family is the highest in rank, then the whole property should be charged.

A.—It would be very simple from a legislative point of view, but it would run counter to the principles of Hindu Law. You need not think of the partitions. The amount got is all the same, whether you fix duty on the whole property or not.

Q.—Regarding repeated duties you think the same principles may be followed as in England?

A.—Yes.

Q.—You think that would not arise in the case of joint Hindu families?

A.—In the case of joint families it may not arise. It may not arise in the case of people following the Mitakshara Law, but it may arise in the case of Bengal. There may be some difficulty in the case of Bengal.

Q.—Then the question of the valuation of the immovable properties arises?

A.—It is quite easy. What we do in such cases is this. An application is made to the District Judge who sends it to the Collector for testing the valuation. He sends it probably to the lower revenue authorities and they get the whole estate valued. Then if the party accepts the valuation of the Collector,

Dr. Paranjpye. Q.—In that case you would fix the gross or net value of the property. The Madras Bill suggests that the rate should be determined by the gross amount of the property, but the actual amount should be on the net value of the property. It looks to me absurd, but that is what the Madras Bill says.

A.—I do not agree with that I will charge as in England and other countries

Q.—You think death duties should be uniform and centrally administered?

A.—Yes It must be centralised

Q.—What about property in foreign countries?

A.—In England it is not charged. Immovable property outside England is not subject to death duties

Q.—I mean immovable property belonging to foreigners in India

A.—That would apply only in the case of Christians and Europeans I do not know what the English system is I see no reason why they should be exempted I think they have to pay for it. But the question will come in only when other countries also charge. In that case it is sufficient if the man pays the difference.

Q.—On whom should depend the duty of reporting the death of a person? I mean the first duty of reporting the death.

A.—You must make it incumbent upon the next heirs who are majors. It must devolve upon the next major heirs to the property to report to the authorities within six months of the death

Q.—Would you agree that the duty should be administered by the income-tax staff?

A.—I would make the income-tax department the administrative body, and the civil court the collecting body

Q.—Would you collect in instalments?

A.—You can leave all these things to the administrative authorities

Q.—To whom should the appeals be filed?

A.—Where is the question of appeals in case you make the civil courts responsible for the collection? If there are to be any appeals, they will go through the regular channel The income-tax department will say that such and such an estate is liable, and the Civil Courts will collect it If the heirs do not agree to it they will go to the Court. If you accept my view of amending the Hindu Wills Act, you will make a provision for every heir to apply to the Civil Court for probate or letters of administration. If he does not do so within six months, you can empower the administration authority to collect the amount Give the man the option to go to Court

The President Q.—Do you think the Administrator General in Madras can take over this work?

A.—I don't think the Administrator General can take over this work

The Hon'ble Sardar Jogendra Singh. Q.—What are your reasons for recommending succession duty?

A.—I do not recommend it, but I say if you want to increase taxation, this will be a source which can be first tapped If you want to make taxation more equitable, I see no reason why a Hindu or a Muhammadan should be exempted when a Christian is already paying

A.—No I will rather have succession duty than increase the salt tax or have a tobacco tax, on the ground that the poor man has to pay in the case of salt tax, and a tobacco tax on tobacco grown here will be difficult to levy.

Dr Paranjpye Q.—As the main property in India is land, whatever duty you may charge, the effect of it will be only a change in the ownership of the land, so that it will not come in the way of capital?

A.—Yes Perhaps the lands will go into the hands of people who will be able to make better use of them

The Hon'ble Sardar Jogendra Singh Q.—Your reasons are that it is a tax on the rich, that it cannot be passed on to the poor and that it can be worked easily?

A.—Yes

Q.—You think that there will be no oppression at all if you leave the valuation to the courts?

A.—In the case of probates an application is made to the court, giving a detailed list of the property, this application is sent to the Collector for checking the valuation, and if his valuation is not accepted by the party concerned, then the court takes evidence and decides the question. If you leave the valuation of the property to the courts, I do not think there is any fear of oppression It is only if you leave it to the village officers that the oppression arises My present suggestion will be perfectly legal. There will be a right of appeal also

The President Q.—You think under the present system of taxation that the rich people are not paying their fair share and there is inequality?

A.—I think so

Q.—You said that you would legislate by amending the existing Acts, could you possibly spare time to give us an idea how to work out the scheme?

A.—My view is that if the committee comes to the conclusion that this tax should be levied, a small committee of, say, three lawyers should be appointed to draw up a Bill and frame a set of rules as to how to levy this duty. If you want it, I shall be able to give a brief note on the subject by the time you come to Madras

The Hon'ble Sardar Jogendra Singh Q.—On what basis are taxes ordinarily paid?

A.—I take it in comparison with the capacity to pay. Take for example a man (an absentee landlord) getting Rs. 500 per month from land and a Government servant The latter has to work, whereas the man who gets the income from land does no work

Q.—Does not land represent capital?

A. It might represent capital but the capital never goes It is indestructible

Q. Do you know that landlords are indebted?

A.—They are indebted because they are vicious Most of the zamindars in Madras are indebted Capitalists will have no time to spend money on vices A business man won't invest in land; that is my experience The Nattukottai Chettis in our parts do not invest their money on land because it is not liquid. On the other hand the lawyer wants to invest money in lands because there is no other means of keeping money safe

Q.—With regard to court fees you say that we should not tax justice?

A.—Yes

Q.—Could you give us an indication of the charges that should not be debited to court fees?

A.—If I am not mistaken in the Madras budget the surplus from civil justice is being used in part for criminal justice

Q.—You would debit nothing for the criminal courts?

A.—Nothing

Q.—Even in respect of matters which are in the nature of private complaints?

A.—By all means levy court fee on them but the State is bound to render criminal justice free

Q.—Will you charge court fee in the case of the panchayat courts?

A.—You don't even give them pens and pencils Unless you incur special expenditure there is no need As headmen they do their revenue duties and are paid for the same

Q.—What about the revenue courts?

A.—Make them civil courts take court fees and make them pay In revenue courts under the Estates Land Act court-fees are paid before suits are heard. You don't bring that revenue under civil justice On the other hand the expenditure on criminal justice is to some extent debited to civil justice

Q.—Would you continue the administration of the Court Fees Act under the Local Governments or would you make it over to the Central Government?

A.—I will have it under the administration of the Local Governments, because law and justice are under Local Governments

Q.—You don't think that any difficulty is likely to arise by Provincial Governments raising the court fees?

A.—Except for mutual jealousies of the provinces there will be nothing. Bombay wants to raise simply because Madras has raised

Q.—Are there things included in the Court Fees Act which really do not come under civil justice? For example, on the bill of entry filed before a Customs Officer we actually levy an annas and that is prescribed in the Court Fees Act

A.—We don't levy it

Q.—Does the schedule include any item which ought to be transferred to general stamps?

A.—I do not know

Q.—Have you any principles on which the court fees levied could be revised?

A.—The present Act is very inequitable I may give an example. A suit for the recovery of land takes about 6 or 8 months and the trial involves a great deal of time, and labour of the court. Supposing land is worth Rs 5,000. Each acre (wet) in Madras pays about Rs 15 and ten times this sum is Rs. 150 For 3 acres it is Rs 450 You have to pay court-fees on this at the rate of

A tax on luxuries generally would be extremely difficult to define, to confine within just limits, and to collect I do not recommend it Of the last six heads given in Annexure K, all except "Tourists" are obviously inexpedient for taxation in India But I do not see why we should not tax tourists Such a tax could be collected easily at the ports of debarkation in the same way as *customs duty, and would operate as an additional check on foreigners* Whether it would add materially to the revenue is not a question which I am in a position to answer

B.—General Stamps

Q 88—Schedule I of Act II of 1899 has been considerably dislocated by provincial amendments, a course which, in my humble opinion, was unwisely permitted even as a financial expedient. For our present purpose, it may be assumed that each Provincial Legislative Council has raised the rates as far as the circumstances of the province justify and no increase can be recommended here I should like to see a reversion to a single schedule for the whole of British India, with a substantial increase under these heads as to which the Provincial Legislatures have declared increase to be justifiable. The fruits of the present medley of rates in the shape of anomalies and legal difficulties arising out of the transfer of properties located in different provinces have yet to be gathered

Q 90—I think Hobson is right, but a similar criticism could be made against other forms of taxation The fact does not, in my opinion, make a levy on such transactions unjustifiable The possession, disposal and transfer of property can only be peacefully and effectively carried out under good government, and it is just and proper that the parties who enjoy this advantage should pay for it. In other words taxes on transfers are payment in part for service rendered to the parties thereto by the State

Q 91—I am unable to answer this question

Q 92—I have not considered this matter and cannot answer this question one way or the other

C—Court Fees

Q 93—I agree with the principle enunciated by Bentham that court fees should be limited to the amount necessary to cover the cost of the administration of justice and not be made a source of profit to the State I am further of opinion that in India the ability to pay such fees cannot safely be measured by the standard of litigiousness It would be as erroneous to infer that the average Indian only resorts to the law when and as far as he can pay for it, as to deduce that he limits his expenditure on marriages and other social or religious ceremonials to the amount he can afford He is a curious mixture of miser and spendthrift His natural desire is to hoard, but that is frequently overcome by impulses to waste As regards litigation he is possessed by a devil which in Urdu is called *zid*—the nearest English equivalents for which are importunity and pertinacity This spirit drives him into litigation, and, once launched, impels him to carry on to the uttermost limit regardless of cost However slight *may be the chances of success, he will take any and every step available to him* by way of suit, appeal, review and revision to achieve his end, whether the object in view be gain to himself or loss to an opponent I know of a case in which two agriculturists of average means spent something like Rs. 10,000 each in litigation for a tree standing on the boundary between their lands, whereof the value was estimated to be 13 annas

Again, in the case of court fees, as in that of general stamps, each province has been allowed to make enhancements quite recently, to suit its own circumstances, and I doubt if anything can be added But, as in the other case, I should like to see a reversion to an uniform rate for all British India, with a schedule amended in the light of what the Provincial Councils have done

As regards suits for value being brought under cover of suits for declaratory relief, the published decisions show that the courts are alive to the matter. A party who can sue for immediate possession cannot claim declaratory relief only A party in *lawful* possession, compelled to clear his title by a

suit for a declaration, should not have to pay the fees applicable to a suit for possession, but he might nevertheless be made to pay an *ad valorem* fee at a lower rate, since for such a suit a fee of Rs 10 is often grossly inadequate A party in *unlawful* possession is not likely to claim investigation into his title. The case of a person having a vested or presumptive title, without any immediate right to possession, who may seek declaratory relief, requires attention and special treatment Take the common case of a Hindu reversioner or expectant on the death of a widow in possession. Under the present law, he can get his title to succeed the widow in possession of a large and valuable estate established by filing a suit on a ten rupee stamp; and with the help of the decree he often gets, after the widow's death, a peaceful possession which otherwise might have been resisted, compelling him to lodge a possessory suit Many such declaratory suits are long, complicated and troublesome to the same extent as a suit for possession brought after the widow s death would have been It seems to me that every such declaratory suit should be treated as a suit for "deferred possession" and that, if the plaintiff succeeds, the decree should (*a*) declare his title, (*b*) specify the event on the happening of which the right to actual possession will arise, and (*c*) order delivery of possession at that time subject to the payment by the decree holder of the balance of court-fees necessary to equal the fees payable in a suit for immediate possession Thus, suppose the property in suit was valued at Rs 10,000, on which the fee for a declaration was fixed at 1 per cent = Rs 100, the full fee for possession being Rs 475 The plaint, stamped with Rs 100, would claim a declaration that plaintiff was entitled to succeed on the determination of the limited estate If that title were established, the plaintiff would obtain an immediate declaration thereof, and a further decree that when the estate fall in he should be placed in possession as against the judgment-debtor by execution of the decree on his filing a further court fee stamp of Rs 375, in addition, of course, to all other fees payable for execution of a decree for possession I do not lose sight of the fact that the suit is often brought only against the limited holder in possession, and if the judgment-debtor's death is the event which gives rise to the decree holder's right to actual possession, there will be no judgment debtor alive against whom the possessory clause can be executed I do not think that any difficulty arises Let us take an illustration W is a Hindu widow in possession of her husband's estate, N who is a nephew (brother's son) of the deceased husband is the reversioner Owing to a claim set up by the widow of absolute ownership, N sues and obtains a declaratory and "deferred possession" decree against her only On the death of the widow, if any person takes possession under a title derived from her—*e g*, by a transfer unprotected by legal necessity the decree can be executed against him If possession on the widow's death is taken by some person not claiming under the widow—*e g*, a brother or another nephew of her deceased husband, then the declaratory decree is of no value— no further stamp need be paid on it— and fresh litigation ensues

There is another class of suits calling for treatment, *viz* suits by a reversioner to restrain waste by the limited owner in possession In these cases again the fee should be *ad valorem* the property to be protected but on a lower scale than in a suit for possession

As regards land valuation for fiscal purposes the problem presented is not free from difficulty No doubt a valuation by multiples of rent or revenue is artificial *and often produces results* considerably wide of the actual market value But I believe that this error is as often one of overvaluation as of under valuation, and the system has the advantage of being simple and prompt There are so many factors which affect the actual value of land, such as situation soil, drainage, demand, and others, that any system of ascertaining the market value in each case would be complicated and unworkable while to accept as correct a valuation fixed by the plaintiff and not disputed by the defendant would open a wide door for defrauding the State since both parties would be interested in undervaluation of the property in dispute I cannot think of any better system of land valuation for court-fees than that which is now embodied in the Court Fees Act We all know the trouble and delay involved in settling market values for the purposes of the Land Acquisition Act It may be, of course, that the multiples of rent and revenue fixed many years ago now demand revision owing to a general increase in the market value of land But that is not a matter upon which I can give any definite opinion, such as might be obtainable from Collectors of Districts and Settlement Officers

D.—REGISTRATION

I am of opinion that a higher sum than actual cost is justifiable as a State demand for the service of registering documents. The present registration fees are extremely low; but they are placed low because it is the policy of the State to encourage such registration as a guard against fraud. The tendency, especially among the masses in India, is to avoid or neglect registration, the advantages of which have not yet been fully appreciated; and any considerable increase of the fees will operate to strengthen that tendency. Therefore, taxing authorities should proceed cautiously. I would begin with a sliding scale in cases of non-testamentary transfer, *ad valorem* the property transferred, with fixed fees as now for other documents.

E.—DEATH DUTIES.

Colonel Sir Henry Stanyon gave oral evidence as follows :—

The President. Q—You would not tax the items mentioned in question No. 87?

A—There is no arrangement in India to facilitate collection of such taxes.

Q.—A great many people use coats of arms?

A.—The talukdars of Oudh do

Q.—Could you not tax them?

A.—If it is worth the trouble of collection, I have no objection.

Q—Why do you object to a tax on betting.

A.—Because chiefly it will fall on a very small section of the community. You can collect it only in European clubs and on race courses. A great deal of speculation is going on about the rise and fall of the prices of grain. Would you call it betting? Sometimes they call it betting and sometimes they do not.

Dr. Paranjpye. Q—You agree that racing has attained very great proportions, especially among the poorer classes, and that not only from the point of view of taxation but also from the point of view of moral propaganda, it ought to be discouraged?

A—Yes, it ought to be discouraged But I am against taxing betting in the present conditions of India

Q—Don't you think it will become a great evil?

A—With all respect, I venture to doubt whether taxation will be the proper remedy I doubt its having any appreciable effect from the moral point of view.

Q—At any rate the State is entitled to get something from these people if the vices are ineradicable

The President.—Q—Is it not actually taxed in Calcutta?

A—Yes

Dr Paranjpye Q—In Bombay they propose to tax betting also

A—Would you confine it to betting on races? Will it include betting like playing bridge in clubs?

Q—It might at hotels and in public places, but not in a private club where anybody is not allowed to come

A—That is, you would tax public gambling?

Q—If we have a game of billiards in our private club it will not be taxed

A—If I play a game at the Great Eastern Hotel at Calcutta will it not be taxed?

Q—If the hotel registers that bet, then it ought to be taxed But a game between two people is a private transaction

A—It we book our bet it will be taxed On the other hand if we pass a fifty rupees note from one to the other, it won't be taxed?

Q—We cannot tax that If the hotel was making a regular business of it, I think it ought to be taxed At any rate taxing the race course is possible

A.—Quite practicable I do not think it should be done except as an emergency measure I never bet, I play pool, I never play bridge I never bet five rupees on a race, except on the totalisator occasionally So I feel free to speak on the subject I do think that a tax on betting generally would be a very difficult tax to apply and collect and it might lead to many difficulties.

Q—Not a tax on the totalisator and the licensed book maker?

A—You are selecting one or two instances where it may be easy to collect. You could not collect it as a general tax on betting

Q—Ordinarily low class people like the tongawalas go in for it.

A.—They do.

Q—I would prefer stopping these.

A.—It would be strongly supported from the moral point of view; but it would be strongly resisted by the whole of the sporting community as putting an embargo on an established national sport. There was a suggestion to tax it in England, but it was thrown out. I see there are points in favour of it. But my opinion remains unchanged. I do not think I can recommend it as a taxation measure.

Q.—Don't you think horse racing is a legally recognised kind of gambling?

A.—I call it a sport which has been, no doubt, spoiled by gambling.

Q.—If it is a sport it should be taken advantage of only by the members of the Turf Club and not by others. But they advertise it freely in the newspapers.

A.—If I were speaking on it from a pulpit I would be against it. But speaking from a purely fiscal point of view it is not worth the trouble.

Q.—What about entertainments?

A.—The same applies to entertainments. It is only in the Presidency towns that entertainments are of a permanent nature. In up-country stations you have entertainments from travelling companies and I think a tax on such companies would work unduly hard on the people of the locality.

Q.—It is taxed in Bombay only in four or five places.

A.—You are taxing only in a few selected places. Moreover you have to define entertainments. I do not know if fairs are a form of entertainment.

Q.—There are already Acts in existence. In Bombay and Bengal there is the entertainment tax and there is no difficulty in defining it.

A.—It will be applicable to theatrical entertainments, flower shows, baby shows, etc., where you have to pay for your ticket.

Q.—If it is for public purposes, it will be exempted. There are rules under the Act.

The President. *Q.*—You say that a tax on insurance would be strongly opposed to public policy in a country where the system of insurance is in its infancy. Is not the Post Office insurance system very popular?

A.—I am afraid I do not know very much about it. It is in its infancy where I have been. It is not understood by the people. Take a thousand Indians in a country town. Ask how many of them have got their lives insured, ask them how many of them have got their houses insured. You will find that it is still in its infancy.

Q.—The Post Office insurance has spread very rapidly, I think?

A.—Yes, owing to its particularly advantageous position.

Q.—It is suggested that insurance is recognised in certain countries as a suitable subject of State monopoly. In India insurance is still in its infancy. Could it not be made a State monopoly?

A.—In India insurance is not a State monopoly. If you tax insurance you will be discouraging people from resorting to insurance. People should learn and get the benefits of insurance.

Q.—Would it be a good thing to make it a State monopoly on the ground that it would result in greater security and cheapness?

A.—It might be so.

Q.—Then we come to the motor tax. Provincial Governments are already taxing motor cars.

A.—In 1922-23 the United Provinces Council imposed a tax upon a promise by the United Provinces Government that the levy should be in force only for that year of financial stress. Next year the Council summarily rejected it. This year the Finance Member in making his statement to the United Provinces Council said that he did not propose to put forward that proposal.

Q.—In the Punjab have they not passed it?

A.—I do not know.

Q—You would tax tourists?

A—I would I do not suppose that the returns would be very great, but it will be a check in other ways

Dr. Paranjpye *Q*—Would you suggest a tourist tax of 25 rupees?

A.—I think it should vary according to the class by which they travel in the steamers

Q—How much for the first class passenger?

A.—I could not tell As a wild guess, I should fix Rs 30 for the first class and Rs 15 for the second class

Q—Would you limit it to those who are not domiciled in India?

A.—I would not define it in that way You will have to decide who is a tourist and who is not I think it might be collected by the customs machinery.

The President *Q*—Would you make the steamer agents collect it as they do in America?

A—That is an administrative detail I am afraid I will not be able to give any useful advice in respect of that matter

Q—You disapprove of the provincialisation of both stamps and court-fees

A—I do not think it was a wise measure I think sooner or later legal anomalies and difficulties must arise

Q.—It has been brought to our notice that the stamp fees of one province are frequently paid in another

A.—In respect of the transfer of properties suppose there is a house in Lahore and another in Allahabad and if the owner executed a deed of transfer in the province where there is a lower stamp duty and a suit for possession is brought in the province where the duty is higher, what will be the position?

Q—In the Central Provinces he has to pay an additional duty. May I know whether there is any machinery for ensuring that these surcharges are collected?

A—I retired from the Bench about the time when the surcharges were introduced I have no experience

Q—Have you studied the schedule and found any items that could be revised?

A.—I have not got the Stamp Act here. They have been raising the rates all round in most of the provinces.

Q—Have you got any suggestion to make about the detailed items?

A.—I am sorry I have had no time.

Q—You refer to two agriculturists who spent ten thousand rupees each on a tree worth 13 annas.

A—That was a Punjab case which I heard of in my boyhood

Q—Does that mean it is no good to have heavy fees to discourage litigation?

A—No, I do not think that heavy fees discourage litigation I practised actively at the Bar from 1881 to 1897. Then I was in the Judicial Department for 21 years Since then I have appeared in one or two talukdari cases I am really out of date in my knowledge of how far education has created a spirit of caution in litigation From my short experience since I retired, I see at Lucknow litigation is as strong as ever.

Q—Speaking as a Judicial Commissioner did you have a large number of appeals in your Court, which ought not to have come there?

A.—In hundreds and thousands.

Q—Is it possible to arrive at a grouping of these cases for the purpose of imposing heavier charges as a sort of check?

A.—I think it is an extremely difficult proposition.

Q—Would you be prepared to impose a minimum fee for a second appeal? What is the least amount for which a man can move the court of the Judicial Commissioner in second appeal.

A.—No, in the interests of justice. I am not prepared to propose a minimum. Now and then I have come across cases which could have been set right only on second appeal When the High Court has got original jurisdiction, it is a different matter.

Q—What I say is that generally the second appeal in the High Court is about a comparatively small matter; I mean, the amount at issue is comparatively small Thus the High Courts occupy a lot of their time on trivial cases?

A—I used to dispose of scores of them every month.

Q—Should not there be a ten rupees minimum for an appeal?

A.—My difficulty is this. The powers of civil revision are so extremely limited that the second appeal is the only means open to the High Court for not only controlling the administration of justice in small cases and seeing that there is a correct application of law, but also for getting that knowledge and touch of the whole subordinate judiciary which is essential. At the present time, at all events, the Central Provinces subordinate judiciary, with which I am acquainted, is not good enough to be entrusted with powers of final disposal Therefore I would be against anything which would give them final powers It would vary in different provinces I quite see that there is a certain amount of force in what you say, nevertheless I am somewhat doubtful whether giving final powers even in the suits up to the value of a thousand rupees to District Courts would be justifiable.

Q—I am not suggesting final powers, I am only suggesting making the party pay a minimum sum to move the High Court

A—In that case either the fee would be so high as to prevent a man coming up to the High Court or else the imposition would be no good

Q—I am suggesting ten rupees

A—As far as I know the cases that come up in second appeal require more than 10 rupees for court-fees You should remember that there is a provision in the Code that suits of a small cause nature shall not come up in second appeal.

Q—I do not know what is the minimum When I was Registrar of the Madras High Court it seemed to me absurd that after having had an appeal in the lower courts, a man could still get the services of two High Court Judges for one rupee and eight annas so far as the court fees went. Therefore I suggest you should not have the services of a High Court Judge for anything less than ten rupees

A—I am a little conservative about it From the judicial point of view it is better that fifty trivial cases should be brought before the High Court and waste the time of the Judges than that one good case should be left out. I do not think the trivial value of the suits is the correct criterion for judging.

Q—I should like to ask you who is responsible in the Central Provinces for seeing that the right court-fee is paid?

A—The presiding Judge of the Court

Q—Does he interest himself in this matter?

A—The Judges are particular in seeing whether a suit is properly stamped or not They look to the plaint and decide the question. This is one of the duties of the Judges.

Q—Is it not one of the duties of the ministerial officer?

A.—The ministerial officer of the court first sees to it and puts up a report to the judge. For example, in a declaratory suit on a Rs 10 stamp, he may note that this is a case in which there is a prayer for consequential relief. The stamp is first checked by the ministerial officer We call him the clerk of the court

Q—Is he a trained lawyer?

A.—No In my time, he was a man getting something between 80 to 150 rupees a month. All these fiscal questions have to be decided by the presiding judge as preliminary questions In the Central Provinces we had judicial circulars expressly instructing the Judges to observe these rules strictly I am not talking of the High Courts I am only talking of the lower mofussil courts of first instance It may be that in the High Courts the Judges do not trouble themselves with regard to this matter There is, I believe, a special machinery to deal with these cases, in the form of a Registrar It is purely an administrative matter which is attended to by the Registrar

Q—Have you any experience of a common form of evasion, which is this In a number of suits on the same point a barrister will sign all the appeals; the barrister will have no connection with the suits at all, but signs simply in order to avoid the court-fees?

A—I take it that happens only where the dual system prevails. The dual system prevails in the presidency towns, that is, counsel only appear and plead and solicitors act

Q.—Then there are cases where 500 or 600 suits are filed by the zamindar against his tenants and a vakil is engaged He argues one case and all the separate appeals are signed by the barrister simply to save the court-fees?

A—I have known senior Advocates signing the memorandum of appeal merely as an indication that they are engaged in the case

Q—I am talking of junior barristers

A—You mean signing the memorandum of appeals without knowing anything about the appeals?

Q—Simply in order to enable the vakil to save the cost of the memorandum?

A—We heard instances of this kind in Madras when I went round as a member of the Indian Bar Committee.

Q—Did you hear of any other such matter that affected the revenue?

A—I can not recall it now

Q—Does not a good deal of revenue slip through the net?

A—I think it may be so On this particular point I think in our recommendations on the Indian Bar Committee we have proposed that whenever a barrister chooses to act, he must file a *vakalatnama* That is one of the recommendations of the Bar Committee

Q—The Madras Act already provides for that?

A—I think Chief Justice Sir Murray Coutts Trotter has anticipated the legislation that is coming

Q—Another kind of case is in a succession certificate where there are a number of debts, the parties agree that the man who wants the certificate sues on one small debt and agrees with the other debtors to save the succession fee on the remainder?

A—I have not come across cases of this sort, but I can quite believe that they are very common Defrauding in these cases is looked upon as a bit of cleverness

Q—Would you say it was a national pastime?

A—Yes, and not only in India

Q—You make a proposal that in declaratory suits the courts should order delivery of possession at that time subject to the payment by the decree holder of the balance of court fees necessary to equal the fees payable in a suit for immediate possession.

A.—Yes, before he gets possession

Q.—That would not be a difficult thing to carry out?

A—I do not think so. Take the case of a revenue paying estate. Suppose there is a Hindu widow in possession of the estate and there is a reversioner who brings a declaratory suit; the court is satisfied that he is the presumptive reversioner after the death of the widow. When the widow dies he has to obtain mutation of names. Having paid a court-fee of Rs 10 only for his decree, he should be compelled to pay the proper court-fee for possession as the price of being given the mutation of names which will certify his right to possession such taxation would be easy enough in regard to revenue paying property. It would be quite easy in this case, but in other cases it might be more difficult.

Q—It is only in case of succession through a widow?

A—No, in any intervening estate. I have given the case of a widow's estate only as an illustration

Q—Can you tell us where we can find some one who knows something about the practical administration of the court-fees? If there is any branch of the profession that could give us detailed information about it

A—I think the attorneys and solicitors practising in the presidency towns know something about it I cannot think of anyone else It is a fact that in the mofussil the fixing of court-fees is left to the juniors or to petition writers

Q—Is there a Solicitors' Association in Calcutta?

A—Yes, there is. There is the Incorporated Law Society, Calcutta.

Q—I think some officers of the Court ought to know?

A—Yes There is a taxing officer in every High Court. I think he is in close touch with all fiscal matters.

Q—I think he is only on the original side and not on the appellate?

A—Does the appellate side present any particular difficulty? It does so only when there is a variation in the prayer of the plaint.

Q—Then you point out the difficulty of land valuation and say that the valuation by multiples of the land revenue is artificial and often produces results considerably wide of the actual market value and you believe that this error is as often one of overvaluation as of undervaluation? How does it arise when it is only five times the land revenue?

A—You get a bit of land in some corner with poor soil, etc The Settlement Officer is very keen in getting as much as he can and I do not know if he cuts down the assessment quite as much as he might do in the case of an unfortunately placed piece of land I have had conversation with thousands of agriculturists and from what they told me I do think that the incidence of settlement works very hard in some cases. That is only a rough guess.

Q—In many cases the real value is a hundred times the land revenue?

A.—That may be so.

Q—You do agree to charge something for registration?

A—Quite so I am very clear on this point.

Q—You say that you would begin with a sliding scale in cases of non-testamentary transfer, *ad valorem* the property transferred, with fixed fees as now for other documents?

A—It is not "transfer" That is a mistake I meant "devolution." You have already fees fixed for cases of probate, but as I understand it, you have no death duties except where letters of administration are taken out in the case of intestate succession. In other words all such cases go untaxed

Q—You will tax registry of mutation?

A.—Yes.

Q—Would you increase the fee on the wills?

A.—On the wills themselves or the probate?

Q—No, on the registration of wills As a very mild measure of taxing?

A—I think on careful consideration the policy should be to encourage registration of wills as much as possible.

Dr. Paranjpye. Q—First of all encourage the making of wills and then registration of wills?

A—Yes.

Q—You know that at present only some communities pay death duties and others do not

A—That is so

Q—Is it not desirable to bring all the communities into line?

A.—I think so

Q—Do you consider imposition of death duties a fair tax?

A—I think as a principle it is right, but it should be little more than nominal in cases such as when a man has to provide for his wife and children

Q—You agree that it should be levied on a sliding scale?

A—Certainly.

Q—For distant relatives it should be much more

A—Yes.

Q—In your reply to question No 137, you say that the introduction of such duties should be gradual What do you mean by this statement?

A—I think you should begin with a very small imposition and increase the rates as people get accustomed to them

Q—But don't you think there would be an inequality between a man who dies this year and a man who dies next year?

A—I do not think within a year there would be much difference. There is an enormous difference between the income tax I pay and the income tax my father paid I did not mean that the rates should be increased year by year, but as people get accustomed to the tax, you add a little more The same thing is done in the case of income tax

Q—Don't you think that death duties are of a slightly different nature to income tax? Are they not in the nature of a capital levy?

A—Yes, but at the same time, I do not think giving it a different name in any way affects the justice of it A man earns his income owing to the protection he gets from the State, in the other case, an heir succeeds owing to the protection he is given by the State It is simply a form of return to the State for services rendered.

Q—In England, as you know, there are two kinds of duties, one is the Estate duty and the other is the Legacy duty The Estate duty varies with the corpus of the whole estate and the Legacy duty varies with the amount left to each person and his relationship. Would you have in India both these duties or only one?

A—I think I would have a single duty, to begin with at all events

The President. Q—May I invite your attention to your answer to question No 138?

A.—As I said, all three methods might be employed, but not at once

Q—The effect of a Legacy duty would be to vary the duty with the degree of relationship.

A.—You would not impose an Estate duty and a Legacy duty on the same death

Q—Supposing a man dies leaving a son, a nephew and a grandson, the whole estate pays, say 10 per cent but the nephew pays another 5 per cent. because he is a distant relative, and the grandson may pay another 7½ per cent.; so that, the son's share pays 10 per cent., the nephew's 15 per cent and the grandson's 17½ per cent In effect, it comes to one rate graduated by the degree of relationship.

A—What I had in my mind was this if a man dies leaving an estate and a son, the duty should be payable at one rate. If that man leaves the same estate and a nephew as his heir-at-law, the duty should be payable at a higher rate.

Dr. Paranjpye. *Q*—It may happen that he might leave part of his estate to his son and part to his nephew.

A—In writing my answer, I did not consider the question with regard to the particular illustration which you now give of a man who leaves his son a major part of the estate, his nephew a part of the estate and his grand-nephew another part

Q—An Estate duty is useful in order that comparatively big estates might come under the tax although each portion might not come under the tax

A—But I do think that where several heirs succeed all should contribute to the duty Suppose a man leaves an estate, of which he leaves one-half to his son, one-quarter to his nephew and another quarter to his grand-nephew; and if estate duty is deducted and the net estate after deduction of the duty is [illegible] But if he leaves half the est [illegible] his grand-nephew, then a ger [illegible] anything on these people. I [illegible] d contribute, in whatever wa [illegible] by automatically taking the [illegible] e by being made to pay a special Legacy duty.

Q—Suppose a man has left a property of £10,000, out of which he pays £1,000 as an Estate duty There remains £9,000 Suppose he says that out of this one-half is to go to his son, one-quarter to his nephew and one-quarter to his grand-nephew On the £4,500 to be left to the son, the State may charge only 5 per cent

A—I say that all the three heirs should contribute in this case Where you divide it fractionally, the son contributes £500 and each of the other contributes £250 towards the duty

Q—If you look at Annexure P, you will find that in various other countries, there is first of all an Estate duty and then a Legacy or Succession duty. The latter in the case of a husband, wife, child or lineal descendant of child, father or mother or any lineal ancestor is 1 per cent; in the case of a brother or sister, or a lineal descendant of brother or sister, it is 5 per cent, and in the case of any other person, 10 per cent. This is over and above the Estate duty In France, it is much more

A—In France I see they have only an Estate duty where the deceased has left less than four children. If he leaves more than four children, apparently there is no charge on the capital value of the estate

Q—How would you deal with the case of a joint Hindu family?

A—To begin with, you should have an Estate duty which by proper arrangement should be made to fall on every heir who succeeds

Q—Supposing your duty is graduated, a man will pay a smaller duty if he cuts up his estate into a large number of portions. Suppose you have an

exemption limit of Rs. 3,000, if a man leaves an estate worth Rs 10,000 and he cuts it up into four portions of Rs 2,500 each, the Rs 10,000 would not pay any duty at all; the Estate duty, if charged on the whole corpus of the estate, would rope in that Rs 10,000 There is no real difference between a man who leaves Rs 10,000 to one son and another who leaves Rs 10,000 to his four sons

A —I quite understand that.

Q.—Consequently, would it not be fairer to have an Estate duty and also a Legacy duty? You might say that if a given percentage is imposed that percentage should be divided between these two kinds of duties

A —Once you take a duty from the whole estate, you have taken *prima facie* what the State is entitled to take After that, the duty which has been paid should be chargeable between the different heirs *inter se* so as to fall on all of them.

Q —In each case there would then be a complicated mathematical problem to solve. In the case of a son, you might say the duty will be zero, in the case of a nephew, 5 per cent, or it might be possible to have no Legacy duty in the case of a son or widow

A —In the case of collaterals and strangers, I would not object to a Legacy duty I object to it only in the case of a widow or children

Q —How would you get over this difficulty in the case of a joint Hindu family? At present a Christian leaving Rs 10,000 has to pay duty on the whole estate, on the other hand, a Hindu leaving Rs 10,000 to his two sons would not be chargeable on the whole, because the sons have their portion, and are already coparceners.

A —I have dealt with this point in my answer to question No 141 I would apply the tax to the share of the deceased

Q —Now, in the case of a Christian the whole estate is his share and in the case of a Hindu his share would only be a fraction; consequently on account of the Hindu law of succession, a Hindu family will pay a good deal less than a Christian will pay. Do you think this fair?

A —It is not at all fair.

The President *Q* —But is it not practicable to equalize the duty in the two cases? The rate which you apply would be the rate applicable to the whole estate, the amount which you would tax would be the share which the deceased coparcener would have secured if a partition had taken place on the day of his death Owing to the greater frequency of deaths in a joint family, in the two cases the duty would be equal?

A —In the case of a Christian who dies leaving an estate worth Rs 10,000, his son succeeds and has to pay duty on Rs 10,000, in the case of a Hindu father and two sons, on the father's death, the sons under this system would pay only on the one third share

Q —Suppose for the sake of simplicity a family consists of three men of the same generation, instead of a father and two sons How would you treat such a case?

A —If they were three brothers living jointly, and if one brother dies, *the duty should be charged on the share of the brother*

Dr Paranjpye *Q* —But in the case of a father and three sons, this method of levying the duty would put the Hindu family at a great advantage

A —There is no difference in the case of coparceners The essence of the difficulty lies in the fact that in the Hindu family there is no succession; it is simply continuance by survivorship

The President *Q* —Let us come to your suggestion that this duty should not be levied by the Government of India but should be levied by each province according to its own system. Is not this a matter in which, in view of property

being held in different parts of India by the same family, you ought to have uniformity of rates and a uniformity of system?

A—You can have uniformity and yet leave it provincial.

Q—Why should you not allow the central staff to collect it and distribute the proceeds?

A—Because of the difficulty over expenditure

Q—It would be much cheaper if you could utilize local agencies. Suppose you put it under the Income-tax staff and take the assistance of the Collectorate and then distribute the proceeds according to some ratio to be determined?

A—That only differs from my suggestion in this way the Central Government makes the provinces their agency The proper agency for the collection of such taxes in India in each province would be the Local Government. I do not think the Central Government could collect it without having a very expensive machinery

Dr Paranjpye *Q*—They collect income-tax through a Central agency. I thought that the Income Tax Department properly expanded would be the best department for taking over this work with the help of local officers.

A—In the case of villages, the direct head would be the tahsil officials.

Q—There would be very few cases in villages, generally they will fall below the exemption limit. Only substantial people would be got hold of.

A—I think there would be no objection provided there are advantages in having the whole levy made and the tax collected by a central authority and the utmost use was made of the provincial agency.

The President *Q*—On the last page of your statement you say that another difficulty is on account of the special forms of devolution of intestacy prescribed by the Muhammadan law Would you mind telling us what that is?

A—It is the least common multiple and the greatest common measure. You have the widow's share, the son's share, the daughter's share, the residuaries, the return, it is full of difficulties The widow, I think, gets one-eighth where there are children and one-fourth where there are no children; the share of every son is double the share of a daughter. It is a very complicated thing and would present very special difficulties in the way of levying and collecting a tax.

Q—Would this variation in the shares render it unnecessary to vary the tax by the degree of relationship?

A—Variations in the Legacy duty would, I think, be more difficult

Q—Would it be sufficient in the case of a Mohammedan intestate succession to have a uniform flat rate and no Legacy duty and no differentiation by degree of relationship?

A—An Estate duty would certainly be the correct form for Muhammadan law, because every Mohammedan is the absolute owner of property and his property descends to a dozen heirs in succession

Q—Can he will away his property to anybody?

A—No, his wills are controlled also Among the talukdars of Oudh, the system is that a man can will his estate to anybody he likes, despite the Muhammadan law.

Q—Would you look through Mr Wild's scheme (handed in to the witness) and tell us whether you think that the Hindu joint family system necessitates such an extraordinary amount of complication? Some have told us that it is quite sufficient to take the share of the deceased and to exempt it in case of the death of a coparcener who has not attained 18 years of age.

A—This is a proposition which I do not think is correct. If a Hindu dies having a direct ancestor joint with him, it is right that no duty shall

be payable, because in a non joint family the ancestral property would not yet have descended to him and so would not be liable to duty In the case of a father and son, if the father dies, you cannot say that the property descends to the son and if the son dies, you cannot also say that the property descends. The father succeeds by survivorship to the son exactly in the same way as the son succeeds by survivorship to the father. Then again, Mr Wild says: if a Hindu dies having one or more sons or other descendants joint with him and no ancestor or collateral joint with him, the whole joint estate should pay duty, because in a non-joint family his sons would receive the whole estate by inheritance on his death

Dr Paranjpye Q—That is in order to put all the various communities on the same footing

A—But in the other case, if a Hindu father and son are joint and there is no collateral and the son dies, the ancestors inherit just as well as the descendants In a joint family where this assumption is wrong is in the case where the father and son partitioned before the father died, when the son would not inherit the whole estate, but only the father's share Mr. Wild is quite wrong in saying that in a non-joint family the sons would receive the whole estate by inheritance on the father's death If the estate had once been a joint estate, the sons would get two thirds by partition and they would inherit only one-third It is a curious position that the sons should pay the duty on the whole estate

Q—In the case of the sons who are living at present, I would say that duty should not be charged, but only in the case of sons born hereafter it should be charged

A—Then you are up against the Hindu law

Q—I shall take into account all vested interests as they are, but I shall not hereafter allow further vested interests to be created unless the duty is paid at the time when the father dies You can make a register of those who are at present living and tax any son born after that date

A—You are going into the very root of the Hindu law

The President Q.—The whole of Mr Wild's scheme seems to be based on this · tax the whole estate as if it was a share of a single person, instead of taxing the share of the man who dies

A—Why he is afraid of taxing the share is that there may be some avoidance of duty In the case of Rs 3 000 it can easily be avoided by saying that the estate is a share of the joint family

Dr Paranjpye Q—Suppose there is a simple case where A a Christian, has got a son B, B has got a son C and C has got a son D and they have got property worth Rs 10,000 At the death of A the whole 10,000 will be charged at the death of B again the whole thing will be charged The same will be done at the death of C and so on But that is not the case if it were a Hindu family Only Rs 5,000 will be charged

A—In the case of the Hindu family, the moment the son is born charge him on Rs 5 000 Because by the peculiar law the moment the son is born the property descends to him from the father

Q—But in view of the enormous infantile mortality and in order to avoid complications, it is much better to charge it at death

A—Then you can do it in this way Suppose a Hindu has property worth Rs 10 000 He has a son born to him Would it be justifiable to charge a succession duty on Rs 5 000 for the estate that he inherited from his father after his father's death and on Rs 5 000 that by force of law he inherited from his father when he was born?

Q—Yes Both the Christian and the Hindu start with a property worth Rs 10,000, and in the case of a Hindu you charge on Rs 5 000 and in the case of a Christian you charge on Rs 10,000 This is the case

being held in different parts of India by the same family, you ought to have uniformity of rates and a uniformity of system?

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7th March 1925.

Delhi.

PRESENT:

Sir CHARLES TODHUNTER, K.C.S.I., I.C.S., President.
Sir PERCY THOMPSON, K.B.E., C.B.
The Hon'ble Sardar JOGENDRA SINGH
Dr. R. P. PARANJPYE.

Mr. E. H. ASHWORTH, M.L.A., and Mr. A. C. WILD, M.L.A., were examined and gave oral evidence as follows:—

The President. Q.—Might we begin with the existing administration of probate? Have you anything to say about it?

Mr. Ashworth. A.—At present the probate fee and the fee on a succession certificate are in the nature of death duties, and I think the method of collecting them through the court is a bad one. What actually happens is this: the application is put in to the court and the court at a certain stage sends it to the Collector to verify the estimate of assets put in by the applicant. After the Collector's decision it goes back to the court for another hearing and you have got a dilatory and expensive method for doing something where you have got very little in the way of judicial proceedings. I have been constantly asked, especially by poor Europeans, to recommend to them some pleader who would be able to push through their proceedings quickly. They always complain that they have to spend considerable amounts apart from what is actually paid to the Government. One of the reports (Mr. Kinney's, for example) says that where Rs. 20 to Rs. 25 represent the amount received by the Government on probate administration, the pleader's fee amounts to Rs. 100 to Rs. 150. This is on account of giving notices to people and so on.

Sir Percy Thompson. Q.—The actual hearing takes place in the court?

A.—Yes; what happens in practice is that the judge keeps one day in the week for miscellaneous cases and they may be adjourned two or three times before they are finally decided.

Q.—In England it does not go to the judge at all.

A.—Yes; that is what we want in India. It might be considered whether it might be done in a less expensive way.

The President. Q.—Would it be possible to constitute the provincial Administrator-General into something in the nature of the Official Trustee in England, paying him a certain percentage on the estate?

A.—At present the Administrator-General does it when no one else comes forward.

Sir Percy Thompson. Q.—But he does not grant the probate?

A.—No. But I think the idea is that he would get it done cheaper.

Q.—The Official Trustee in England takes a certain percentage. There has been a controversy as to whether the Banks or the Official Trustee do the work cheaper and it has always been claimed that the Banks do it at half the cost incurred by the Official Trustee. On the other hand, it is urged that the latter gets all the difficult cases.

A.—Yes, that is true. There is only one Administrator-General. There are the Government pleaders in the districts. I think the work may be entrusted to them. But in many cases it is not really the title that is disputed. The difficulty is with regard to the assets. Do you regard a probate fee as a tax?

The President.—Certainly.

Mr. Ashworth.—You don't regard it as merely a payment for services rendered, *i.e.*, for the establishment of the title and so on?

Sir Percy Thompson.—It is quite clearly a tax. In England, of course, we have no hearing in courts.

Mr. Ashworth.—If in the great number of cases some department of the court would serve the necessary notices, perhaps some delay might be avoided.

Sir Percy Thompson. Q.—Is the probate taken by everybody?

A.—Probate is taken when there is a will and an appointment of an executor. When there is no executor appointed, it is letters of administration.

Q.—But does not everybody in India get letters of administration or probate? Is it not compulsory?

A.—No. A great many people do nothing. In the case of a Hindu family, nothing is done. The property passes by survivorship.

The President. Q.—(*To Mr. Wild*)—On the question of the administration of the existing probate law, we were told that in Bombay there is great difficulty in realising the full duty on probates. Could you tell us something about that? Mr. Lawrence also raised that point at the Finance Members' Conference.

Mr. Wild. A.—Of course, the reason is that many people do not find it necessary to take out probate at all. It is only the Europeans, the Parsees, the Indian Christians and the Jews that take out probate.

Sir Percy Thompson. Q.—Suppose, for instance, a Muhammadan possesses shares in a Bombay company and he dies. Would the company transfer those shares to the son without determination of the probate?

A.—I think he gets only a succession certificate.

The President. Q.—Have you any opportunities of knowing about the evasions to which Mr. Lawrence referred?

A.—I think he refers to the making of wills outside the city of Bombay in order to evade the tax.

Q.—I think the point mentioned by Mr. Ashworth is that the collection from the courts is not very effective.

Mr. Wild. A.—That is also probably true; because the man who wants the probate has to enter the value of the estate and that is referred to the Revenue Department—the Collector—and it is impossible for him to find out what the value of the estate is. It is no doubt undervalued very often.

Mr. Ashworth. A.—In practice it goes to the Tahsildar who is a very busy man.

The President. Q—It has been suggested to us that these succession and probate duties should be extended to other communities; and that the best way to do it is by amending the existing Acts

Mr. Wild A.—You can apply part of the Indian Succession Act to Hindus, Buddhists and Muhammadans. You can repeal section 331 of the Act which says that the Act does not apply to Hindus, Muhammadans and Buddhists.

Dr. Paranjpye. Q—If you repeal that, would you not alter the Hindu law of succession?

A.—No.

Sir Percy Thompson Q—Suppose a man does not take out the probate?

A.—In the case of those to whom the Act is applicable, they cannot sue in the court on the will

The President. Q—There is another aspect, *viz*, the practice of getting the succession certificate in respect of a single debt and utilising it to cover all the debts.

Mr. Ashworth A.—*It is good enough in practice, but the Government* loses its duty.

Q—In amending the Act you think that something should be done to meet that difficulty.

A.—It would mean repealing the Succession Certificate Act.

Sir Percy Thompson —In England the probate is when there is an executor If there is no executor the next heir applies for letters of administration

A—In the case of a succession certificate you simply go to the court and say "I want to collect a debt" Even a creditor gets a succession certificate

Q—Before notice is issued something is done to satisfy the court that there is *primâ facie* claim, is it not?

A—Oh, yes

The President Q—The next stage I take it would be to prohibit the passing of property so far as that share is concerned except on grant of probate or letters of administration

A—I doubt if you can do anything more than say "There is no title" and leave them to suffer the inconvenience

Q—Would it be practicable to introduce anything like the English practice here?

A—If they don't want to take probate, the people in possession will get their name entered in the registers of the Revenue Department That is of course, in the case of land.

Q—The same requirement can be made in the case of the revenue officials

A—You would have to alter the revenue law The object of the revenue authorities is to keep their registers up to date They would enter the person who *primâ facie* had the best title to succeed, but they cannot adjudicate on the right to succeed

Q—Will you have this done by an official like the Registrar of the High Court?

A.—All this is done in the districts where there is no High Court

Q—Is not the sub registrar capable of deciding this?

A.—I think not. In certain places he might, but he has got enough work already. It would really involve having a special officer.

Q—As between Hindus and Muhammadans, how would you fix the rate of death duty?

A.—It is all a matter of calculation. If you know the relationship, the calculation can be done.

Q—Would you have a flat rate or a graduated duty?

A—I would not have any complications.

Sir Percy Thompson *Q*—Are you going to fix the rate on the estate as a whole or on the share that each will get?

A—The two are different

The President *Q*—You would not levy a duty on the corpus of the estate.

Mr. Ashworth. *A*—I would not make it complicated

Mr. Wild—Why not levy a duty on the share of each person?

Dr Paranjpye—In an estate of Rs. 10,000 if it is owned by one man you will get the duty If it is to be divided, the share will be less than the minimum and the whole property will escape duty.

The President—What has been suggested is that you should treat each share as though the whole thing had been partitioned.

Mr Ashworth—You will have tremendous opposition because you are acting against the system of Hindu survivorship. But that is the only thing you could do in order to apply it to the Hindus.

The President—Even if for purposes of fixing the rate you take the value of the estate, the Hindu will get off much more cheaply than the Christian or the Parsee

Dr Paranjpye—It is like this A is a Hindu having a son B and a grandson, with ancestral property K is a Christian with one son L and grandson. *If A dies B inherits only half, as the other is his by birth Therefore he will* have to pay only duty on half the estate In the case of K who is a Christian L will have to pay on the whole estate.

Mr Ashworth—I cannot quite follow If everybody pays on the share ultimately you must get the whole amount

Dr Paranjpye *Q*—The Hindu inherits by birth

A—I would apply the rule exactly as if he is a Christian.

Mr Wild—I would treat the Hindu family as if they were a Hindu non-joint family

Mr. Ashworth—They will object to anything that smacks of altering the law.

Mr Wild—You will have to make it clear that you are only taxing and not interfering with succession.

The President *Q*—Would you tax on the death of the managing member only?

A—There will be the tendency to put in the youngest member as manager of the family. It is by no means easy to say who the manager is.

Q—Will it be legitimate to tax on the death of every person whether he attains majority or not?

A—There will be too many variations in the duty. A share in the joint *family of a Hindu varies with the birth and death of the members*

Q—Could you meet the difficulty by imposing a higher rate on the share of a Hindu family? It would involve taxing partitions.

A—It might be quite possible for father and son to partition to avoid duty

Dr. Paranjpye. *Q*—Mr. Wild, in applying your scheme, you would not give retrospective effect to it?

A.—No

Q—Therefore all the present members will have to be exempted?

A—Yes.

Q—Consequently the present sharers will have to be charged only on their share?

A.—Yes.

Sir Percy Thompson *Q*—I do not see myself how the difficulty is present if partition is treated exactly as a gift?

Mr. Wild. *A*—Exactly so I do not see there is any difficulty.

Mr. Ashworth—Assuming there is no difficulty as to the gift, I do not think there will be any further difficulty with regard to partitions In fact, it would be easier

The President *Q*—Would you have to register all partitions?

A—I do not think you register gifts of movables

Q—Can a man make partition verbally?

A—No I think all partitions of revenue paying lands are at least registered. In other cases I think you need no registration

Q—Would there not be fictitious partitions?

A.—I think the person interested will have to prove that the partition was effected three years before death

Q—Would they not produce documents which will be just manufactured to serve the purpose of avoiding the duty?

A—You may have a rule that unless a partition is registered it would be of no use in any court This will serve the purpose

Q—In other words, you will have to register the partition at the time it is made?

A—The point is that the document effecting partition must be registered

Sir Percy Thompson *Q*—There is a good deal to be said in favour of starting an estate duty without registration of partitions and then if you find it does lead to evasion you will have a case for enforcing registration of all partitions?

A.—It is quite possible that such a provision may hereafter have to be made

The President *Q*—Don't you think that it would be more simple if you only tax the shares?

A.—I have not thought out a scheme for this, but I think it would mean far more cases

Mr Wild *A*—Yes, it would be more simple

Q—The proposition is that you tax shares of persons dying after attaining majority. I want to avoid anything that might be construed as interfering with the law of succession. You may lose a certain amount of duty in taxing the share. That is the only objection.

Mr Ashworth. A.—If you are taxing a share, you are taxing on an imagined succession Are you not taxing accrual of right to partition?

Sir Percy Thompson. Q.—You may have a case where there are ten persons, and suppose there is a partition, each will get one tenth, but if one man dies, then the others will get one-ninth. What you are taxing is the potential increment on partition

A—Yes It seems to me the simplest thing for the purpose of these duties is that no attention should be paid to the system of the Hindu joint family.

Q—If you are to deal with all people, whatever the law of succession may be, you will have to take a uniform succession duty, that is, a certain percentage of what would accrue on the death of the person concerned?

A.—Yes But when you come to a Hindu family they say that nothing accrues, that is the difficulty.

The President Q—Why should you not value the share?

A—In the Hindu joint-family system nothing accrues except an interest in the joint property You cannot value it. If the father dies leaving his property, a son is entitled, say, to a sixth part of the property. He does not get anything else than simply the right to partition if the family is joint. Only the chances of his share on partition is increased If he does not get partition he gets no share really.

Q—The joint-family jointly receives one-ninth if there are nine sons?

A—When the father dies they get one-ninth.

Q—Would your scheme work, if you taxed on the one ninth?

A.—I would say, no. If you are a Christian, I tax on the whole lot

Sir Percy Thompson Q.—Supposing there is no father and there are ten brothers and one brother dies, would you tax on the whole estate?

A—Then I would not. In the case of Christians if one brother dies, the property is taken by nine other brothers and the nine others would pay. My point is this I treat the whole scheme as if there was no joint family system at all I treat it as if there was a Christian family. It appears to me that in dealing with the right of survivorship in the property, you will have less difficulty, by treating the Hindu family just like a Christian family.

Q—Can you treat the joint family like corporations in England by annualising the duty?

A.—I have not thought over the matter at all.

The President. Q—Would not the clean-out solution be to tax only on the shares the people get?

A.—If there was a grandfather, father and a son. If the father dies leaving the grandfather and the son, what is the position? That is the difficulty.

For the practical scheme to be worked out, I would ask you to examine Dr. Sir Hari Singh Gour, if you have not already done so. He might be able to formulate some scheme.

Q—What is your opinion about land revenue, is it a rent or a tax?

A.—Where there is a zamindari system no one seriously denies that it is a rent, but where there is a raiyatwari system—which I am not accustomed to—it seems to me there is more to be said for calling it a tax.

Q.—When you say zamindari, you mean, temporarily-settled zamindari.

A.—Yes. It is rent, but it is collected as a tax.

In the United Provinces and probably in Bengal they all agree to call it a rent, but when you get to Madras there seems to be a much larger body who say it is a tax. It seems to me that the raiyatwari system leaves more to be said in favour of being a tax.

Sir Percy Thompson *Q.*—At any rate it is not a tax on the cultivator?

A.—It is very seldom a tax on the cultivator. Yesterday in the Assembly it was said over and over again in talking about the Meston Settlement, that land revenue is growing higher and higher and it was a tax on the cultivators and I think that is quite indefensible

Q.—But if the holdings are uneconomic?

A.—Surely if the settlement is successfully carried out, the holdings cannot be uneconomic.

Q.—If you let him off, surely the result will be the encouragement of uneconomic holdings.

A.—In any way it must be rare.

The President *Q.*—What you endeavour to do in the case of raiyatwari settlements is to ascertain his net return from the land; that you take as his income from land which is taxed.

A.—I am very much against trying to create by law occupancy tenants. I do not see why the zamindars should not pay income-tax

The Hon'ble Sardar Jogendra Singh *Q.*—The whole thing depends upon whether you assume that the land belongs to the State.

A.—My point is that we have treated the whole question as if the land belonged to the State

Q.—As a matter of fact, does it? Can you point out any instance in which land has been treated as the property of the State?

A.—In the old days you never thought of a tax of 40 per cent

Q.—What is land revenue and what is tax? Go back 200 years, was there any such distinction then?

A.—The theory now is that the revenue originally was paid to people called malguzars, and it was a reward to them for collecting the State rents There could not have been in existence a class called malguzars unless you assume that Government owned the land

Q.—Land revenue as a tax pre-existed Can you tell me when the distinction between taxes and land revenue began?

A.—I investigated the records as far back as 1816, the question of rent or tax had not arisen then.

Q.—This distinction which you make, viz., that land revenue is not a tax and that a man's income should be taxed again, is not according to historical facts

A.—Even supposing land revenue is a tax, there is no reason why those who pay land revenue should not pay any other tax.

Q.—You then make two different taxes; when a man does not own land, he pays an income-tax, and when he owns land, he should pay a tax as a land tax, and an additional tax as income-tax.

Q.—The proposition is that you tax shares of persons dying after attaining majority. I want to avoid anything that might be construed as interfering with the law of succession You may lose a certain amount of duty in taxing the share That is the only objection.

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A.—A man who owns land gets something more than the other man; he is getting the chief means of producing grain.

Q.—That is his.

A.—Whose was it originally?

Q.—Who made the land fruitful?

A—The right of occupation necessarily gives him the facilities to make the land fruitful.

Sir Percy Thompson *Q.*—If a man pays £50 a year for something that is worth £500 a year, is it fair to tax him anything more?

A—The answer to that is that his working expenses come up to 50 per cent.

Q—If the State lets him have land for a less amount than it is worth, is it fair to charge him any other tax, because he is getting land at half the value?

A—It is. If he is paying rent, we should not stop Government from taking a tax

The Hon'ble Sardar Jogendra Singh. *Q*—Suppose a man invests Rs. 1,000 in a bank and he earns 5 per cent interest If a man puts Rs. 1,000 in land and his income is only 4 per cent out of that, do you think that 4 per cent can be taxed again?

A.—People are very willing apparently to pay too much for land and if you pay too much for anything, you have less profits from which you can pay income tax In Agra and Oudh, the zamindars may be making a clear 30 per cent profit out of the land On the other hand, they may get it by doing nothing, if they do not cultivate at all

The President *Q*—Is the 30 per cent you refer to, a return on capital or net assets?

A—Assets. My only point was why should not the zamindar pay income-tax, the answer apparently seems to be that, having already paid revenue, he should not be taxed by income tax.

The Hon'ble Sardar Jogendra Singh. *Q*—He pays 50 per cent of his income in the shape of land revenue.

A—If you were to substitute an indirect tax in place of the direct taxes, the zamindar would not be let off

Q—But you do not keep to any principle.

A.—Your principle is that he pays revenue, therefore, he should not pay any tax

The President.—We do not take enough from him in the shape of land revenue and so we should take more

The Hon'ble Sardar Jogendra Singh. *Q*—You are taking 50 per cent out of his income as taxes, and you are imposing a double tax if you ask him to pay income tax.

A.—You cannot call land revenue a tax.

Q—We have agreed that this distinction arose only 50 or 100 years ago; before that period there was no other tax except a land tax.

Sir Percy Thompson. *Q.*—That does not make land revenue a tax.

A.—The only proposition I wanted to make was that because a man pays land revenue, it would not be bad faith to make him pay a tax.

8th March 1925.

Delhi.

PRESENT:

Sir CHARLES TODHUNTER, K C S I, I C S. President
Sir PERCY THOMPSON, K B E, C.B
Dr. R. P. PARANJPYE
Dr. L K HYDER, M L A.

Professor H. L. CHABLANI, M.A., Head of the Economics Department, University of Delhi, was examined.

Written memorandum of Prof. Chablani.

Before I proceed to answer some of the questions in detail, let me take the liberty of pointing out the limited scope of the questionnaire Questions 1 to 5 are obviously intended to elicit information as to the national income of India with a view to find out the taxable capacity of the people of India and to judge with reference to taxable capacity the equity and the wisdom of the present level of taxation. But the determination of the aggregate income of the inhabitants of a country is only one among the many elements in the problem of measuring real taxable capacity The first among these is the problem of determining the smallest sum upon which the people of a country can live a '*reasonable existence*' Moreover, taxation is not, Sir Josiah Stamp rightly remarks, "a stationary or static problem, the cutting up of an existing cake—it is a moving and dynamic problem Thus it is little use thinking of the consumption level only We have to keep one eye on the production side too" It thus involves the problem of determining what Sir Josiah Stamp calls the "point of psychological reaction," which is far more important than the actual subsistence level (See Wealth and Taxable Capacity, pages 114-117)

The second material factor in the problem of taxable capacity is the way in which wealth is distributed "There will be a different taxable capacity if all the incomes are on one level or of an average amount, than if there is a steep graduation in distribution If there are ten thousand persons at a level of £100 subsistence, and one person with a million pounds, there would be a larger taxable capacity than if the same aggregate of 2 millions were equally divided amongst 10,001 persons" (Wealth and Taxable Capacity, page 113)

A third essential consideration in the matter is the use to which taxation is put If the proceeds of tax are applied say to military expenditure the sum taken from the tax payer will either reduce general consumption enjoyment and possible efficiency, or else reduce the saving power for the future, in its net effect If on the other hand taxes are applied to nation-building departments, say education, what the tax-payer pays returns to him in the shape of services which increase his efficiency or enjoyment In the one case the tax is a burden, in the second case it may confer a greater benefit than it takes away. Taxable capacity may be *nil* in the one case, and very great in the other

Considerations of this sort seem to have been lost sight of altogether in framing the questionnaire No enquiry into taxable capacity can be complete without taking all these factors into account. Any narrow interpretation of the terms of reference is likely to defeat the very object of the enquiry. Besides,

the exclusion of these factors is, I am afraid, only too likely to produce unnecessary divergence of opinion among the witnesses. For instance, it is sometimes said with a great show of reason that India suffers from under-taxation; on the other hand, it is maintained almost with equal plausibility that India is over taxed. And yet both these statements may be true in a limited sense If people were sure that the proceeds of taxation will be spent mainly on nation-building departments, they will press for higher taxation to bring India in line with the most progressive countries of the world. If on the other hand, the so-called experts bore in mind the fact that the greater part of the expenditure in India is on objects that do not contribute to the economic welfare and efficiency of the tax-payer, they will not argue lightly that India is under-taxed.

With these reservations, I now proceed to answer some of the items in the questionnaire

Q 1—The statistics at present available are neither adequate nor reliable I have nothing to add to the defects already pointed out in the Annexure A. The situation disclosed is indeed a serious one and points to the urgent need of creating a statistical department in each province

Q 2.—I shall notice only two estimates, the one by Prof. Shah and Mr Khambata and the other by Mr Findlay Shirras.

The first estimate excludes altogether the value of services (*vide* article 5 chapter III and chapter IV) which do not materialise into commodities The definition of national income accepted by the authors of the book is materially different from that given by Dr. Marshall or the one adopted by the British Census of Production (1907). Dr. Marshall defines it as follows:—"The labour and capital of the country, acting on its natural resources, produce annually [illegible] -rial and immaterial, *including services* [illegible] needed to provide for the using up [illegible] for the wearing out and depreciation [illegible] all such waste must of course be deducted from the gross produce before the true net income can be found. And yet income du[illegible] This is the true net annual [illegible]" (Art 10, I, Book [illegible] of Production of the [illegible] al Dividend not only the net output of land, mines and manufacture but also services of distribution *plus* personal services *plus* services of houses The item "services and houses" there is composed of (*i*) income from ownership of buildings not used for production, assumed to be the value of the services rendered; (ii) railway revenue from passenger service less value of coal consumed and destruction of capital goods, and less receipts from commercial travellers; (iii) the part of postal service that is not for business; (iv) the services of domestic servants, taken as equal in value to the aggregate of wages and the value of board and lodging; (v) the services of the Central and Local Government so far as not already reckoned in production; (vi) the services of professional and artistic classes and of the business groups not already reckoned in (v); (vii) some other persons rendering direct service (see pages 57 and 58, article by A. L. Bowley on the Census of Production and the National Dividend E. J. 1913). All these items have been excluded from the estimate in question by a daring departure from the generally accepted definition of income National income, we are told, must be measured only '*by material and tangible* commodities produced' (page 56) Income from houses and urban sites must not be reckoned as income, because "national income is properly measured by the total material production and shelter, comfort, assistance, and pleasure, etc, are not wealth and so cannot be counted in an estimate of national income—wealth". One cannot but feel surprised at such ideas, but can hardly take a serious notice of them. They are a faint echo of old fashioned crude ideas of productive and unproductive labour They imply a low ideal for the economic world, an ideal of producing only material goods They involve the absurdity of considering that community most prosperous that is engaged in nothing else but the production of material commodities The correct way of visualising national income is to conceive it as consisting of the "national heap", that includes "the boots and the clothes that are made the loaves that are baked, the sheep that are reared, the sermons that are preached, the songs that are sung, the physicians' advice, the pilots' skill the bankers' knowledge, the business man's services of organisation, the crossing sweeper's services, indeed, everything that can be given by us whereby

we have a claim upon the work of our fellow-men who are contributing to the heap, including the services of those who have helped to make the heap larger than it would or could be if we started afresh without the assistance of piled up capital goods saved from the heaps of former years". (Josiah Stamp, Taxable Capacity, page 42)

But apart from this serious objection, Prof. Shah has not been even consistent in his ideas Taxes paid by the tax-payer place in the hands of Government means to command material goods and services; and those that receive salaries from Government utilise their income in purchasing material goods, comfort, shelter, and personal services, etc. If non-material goods are not included in the total estimate of national income, that part of the taxes paid, which is utilised in the purchase of non-material goods, is no deduction from the *total material* goods produced in the country. In estimating the burden of taxes, Prof. Shah should not, for the sake of consistency at least, have reasoned as if the taxes are paid wholly out of the heap of material goods

But even if we restrict ourselves to an estimate of material goods and *services that help material production directly*, there were only two methods open to Prof. Shah, either to calculate the innumerable *retail* prices of all articles made out of the raw materials produced in India, or to take wholesale prices and reckon separately the value of the services which have in any way added to the utility of the material goods. The reasons advanced by him on page 172 in justification of this method do not appear to me to be convincing The prices at the ports even of the exported crops are quite different from the *innumerable retail* prices of finished goods in the interior There are innumerable intermediaries between the ultimate consumer and the ultimate producer of the raw materials, and it is the retail price to the ultimate consumer that includes the reward of the services of these intermediaries

There is another fundamental error in the reasoning of Prof Shah Taxes are after all paid by 'persons' and not by 'countries' A "country" is only an abstraction For the purpose of measuring taxable capacity what we want to get at is the *aggregate of individual incomes*, from which taxes are a deduction An individual's income obviously does not consist of purchasing power over material goods only but also over services of all kinds and benefits like shelter, comfort, etc

If we add the value of services in trade, public administration, public force, professions and liberal arts, and domestic service on the basis of Mr Shirras' calculations (*vide* pages 144 and 145 of his Public Finance) to Prof Shah's estimate, the total would go up by 580 crores To this we must add that part of the transport charges which is reflected in retail prices in the interior but not in the wholesale prices or the prices at the ports, which are the basis of Prof Shah's estimate Further additions must be made of (1) income from ownership of buildings not used for production, (2) railway revenue from passenger traffic, less value of fuel consumed and depreciation, and less receipts from commercial travellers, (3) the net revenue from part of the postal service, that is not for business These items have been omitted from both the estimates.

The detailed comparison of the tables given in these estimates is not quite easy, owing to the fact that Mr Khambata's estimate includes Indian States while that of Mr Shirras' does not, as also the fact that Mr Shirras does not indicate the basis of his estimate in several places The statistics about Indian States are admittedly less reliable, and Mr Khambata has consequently to resort to pure guess work As the margin of error is likely to be less if we limit ourselves to the British India statistics, it is better to take Mr Shirras' estimate as a basis of discussion

The following points deserve notice —

1 Mr Shirras' estimate of the outturn of wheat is below the official estimate by over a million, for what reason is not stated (*vide* Table I, "Area and Yield of Principal Crops in India" 1922 23, and Shirras' Public Finance page 140)

2 Mr Shirras' estimate for condiments and spices is 23 45 crores for British India; while Mr Khambata's is only 16 43 for the *whole* of India Both appear to be pure guess work Fruits and vegetables are valued by Mr Shirras' at 96.87 crores against Mr Khambata's estimate of 163 crores (pages 127 and 128 of his book) Mr Shirras is silent as to the basis of his calculation, and so it is difficult to trace any error in his estimate I am inclined to accept Mr. Khambata's estimate, after deducting 9 per cent for Indian States

Similarly the figures for tobacco, drugs and narcotics, groundnuts, dyes other than indigo, and miscellaneous non-food crops are different in the two estimates. No reasons are assigned by Mr. Shirras for his figures; while Mr. Khambata's figures are admittedly guess work.

3. Mr. Shirras' estimate for fodder is only 42.97 crores as against 126 crores in Mr. Khambata's estimate. Mr. Khambata admits that his figures are subject to a large percentage of error (*vide* page 127); while Mr. Shirras gives no clue as to the basis of his estimate. Mr. Khambata gives no estimate of straw, which Mr. Shirras values at 101·30 crores. If we add Mr. Khambata's estimate for fodder to Mr. Shirras' estimate for straw, the total greatly exceeds both these estimates.

4. Mr Shirras omits altogether the income for fisheries, and value of new buildings, for which Mr Khambata's estimates are 3 2 crores and 20 crores, respectively The value of forest produce and rubber put down at 6 69 crores by Mr. Shirras appears to me to be an under-estimate. Mr. Khambata's estimate of 28 crores for the whole of India seems to be nearer the mark

5. The estimate for the following items is higher in Mr. Khambata's table than in Mr. Shirras' :—

	Shirras	Khambata.
Cotton	25 60	75·2 (pages 99, 122)
Jute	11 71	25 8 (page 122)
Linseed	5·48	15·1
Sesamum	8 46	23 (pages 96, 119)
Rape and Mustard	10 04	28 7 (pages 96, 119)
Indigo	3 94	4 2

The difference between the two cannot be explained away as being due to the inclusion of Indian States in Mr Khambata's table

The most material difference between the two estimates is in respect of the income from cattle and fowls as can easily be seen in the following table :—

	Shirras. Crores.	Khambata Crores.	
Milk and Ghee	210·36	140	gross income.
Hides and Skins	7·15	20	
Manure	*Nil.*	45	
Meat	*Nil.*	42	
Net accretions to cattle and horses		31	
		278	
		278	upkeep
		Nil	Net income.

Mr Khambata's estimate is based on the following errors —

1 The number of cattle in milk is taken at 50 per cent, though Dr. Mann, who is relied upon for the estimate of upkeep, considers 57 per cent 'very low' (see footnote to page 145)

2 The price of milk is put down at one anna per seer, and only 20 per cent is added on account of the increased value of milk products such as ghi, sweetmeats, etc Both the figures are ridiculously low (page 144)

On the whole Mr. Shirras' figure appears to be nearer the correct figure (if not an underestimate) if we make allowance for the mistakes of Mr. Khambata and the omissions of Mr Shirras.

Q. 3.—The statement is not true of all countries. The occupational census method was employed in France; the 'net output' or census of production method was tried in the United States, and the income census method was adopted in Australia in 1914-15. I agree, however, that there are no reliable materials to serve us the basis of any of the methods employed in other countries.

Q. 4.—No mere improvement in the method of recording and compiling statistics will achieve the object in view What is needed urgently is better agency to replace the men who are entrusted with this work. Additional expense is inevitable in all cases of reform. But the expense of creating a new statistical department in each province in order to verify and check statistics need not be a very costly affair.

Q. 5.—The difficulties of such a task are bound to be great in a vast agricultural country like India. But the task is worth the necessary trouble and expense The occupational census will, however, be cheaper on the whole

Q 6.—Yes

Q. 7.—An enquiry into the incidence of taxation must involve investigation into the taxable capacity of a country. The latter cannot be determined without some estimate of national income.

Q. 8.—The enquiries are not sufficiently numerous We must have a few typical budgets of agriculturists, industrial labourers, middle classes from each city and each taluk In the absence of these, we can only guess.

Q 12.—My answer to this question will depend on the particular purpose in view If the intention is to consider the burden of taxation *as a whole* as compared to the taxable capacity or national income of India I would include the net revenue from forests in taxation, for the portion of the national dividend taken over by the State for its own purpose is clearly a deduction from that which would have been left for the use and enjoyment by private citizens, had there been no taxation If, on the other hand, the object is to determine the incidence of taxation on *particular individuals or classes*, I would consider only the excess of the price of forest products charged to the consumer under the present system over what have been the price it Government had not maintained a monopoly, as constituting a tax In the one case I would follow Sir Robert Giffen's definition of a tax, and consider the whole revenue of the State, apart from loans and tribute, as "taxation" In the other case I would follow Bastable's definition of a tax and understand with him that when ordinary profit is exceeded, the monopoly possessed by the office is employed for *taxation* (Public Finance article 4, I, II)

What the price would have been under competitive conditions, can only be conjectured it is incapable of precise determination We may say, however in a general way that when the price charged by the State exceeds the cost of production including the normal rate of interest, there is a presumption that the excess is a tax.

What precise amount in the Indian forest net revenue represents interest on the capital value of the forest, it is again impossible to say This much, however, can be said with confidence that the *net* revenue from forests has been increasing much faster than the rate of interest in India Presumably, therefore, the element of taxation in the forest net receipts has been increasing fast in recent years

Q 13.—It all depends on the object in each particular case Government is not a profit hunting joint stock enterprise, its object is public welfare On the one hand, are the cases in which Government in its pursuit of common weal may feel justified in receiving a negative monetary return for a very long time; at the other extreme are those cases in which public ownership of an enterprise is intended to be only a form of levying a tax from particular classes in the easiest way from the administrative point of view Between these two extremes there are all sorts of intermediate cases Ordinarily, when the *object of* Government in assuming ownership of an enterprise is public welfare and not the satisfaction of its own revenue needs it should content itself with a commercial return under competitive conditions.

Q. 14.—For a proper discussion of the nature of net railway revenue it is necessary (*a*) to separate railways constructed for military defence and insurance against famine from railways for commercial purposes, and (*b*) to consider separately the period before 1900 from the years following it.

I am inclined to think that there has been a considerable element of taxation in the revenue from railways constructed and managed as commercial undertakings. This has been devoted to the making up of loss from strategic and protective railways In effect this has been a tax earmarked for military expenditure and famine insurance. Although there was no profit from railways as a whole before 1898, there would have been a considerable profit if strategic and protective railways had not been constructed; and part of this profit represented taxation of the railway traffic.

During recent years, Government have derived a large net profit from railways, much greater than the interest on the capital sunk; and Government have been using its power of monopoly to raise fares and rates beyond 'the competitive level'. The monopoly profit in recent years does represent an element of taxation; this element is particularly large in the fares charged to the third class passengers, which seem to have very little relation to the service rendered or to the cost of that service.

(*c*) Posts and Telegraphs It is difficult to make any definite statement on this, as the accounts have never been placed on a commercial basis, with sufficient allowance for depreciation of capital, the cost of construction of post office buildings, and the legitimate share of the receipts of the Savings Bank business *Primâ facie*, there seems to be a ground for believing that there is an element of taxation in the post office charges at least since 1921

(*d*) Profits on coinage, exchange and currency. I regard this item as a profit from inflation, which by reducing the value of money amounts to a *general tax* upon all earnings which do not increase in proportion to the rise of prices This has been specially so after 1921, since when the interest on Paper Currency Reserve and the excess over £40 since the Gold Standard Reserve has been credited to revenue.

Q. 15.—The charges for water are obviously inadequate, since if we exclude the "portion of land revenue due to irrigation", there is a net loss to the State It is but reasonable that the State should get the bare cost of supplying the water, including interest on capital invested This does not mean that this standard should be reached in the very first years of the opening of a canal, nor does it imply that this standard be enforced on every canal This should be the net effect of the rate on the whole, and in a generation

I would not aim at any higher standard Irrigation is a beneficent measure, and the increased prosperity of the people is bound to react favourably on the revenue of the State in several ways.

Q. 16.—Undoubtedly, I would fix the State's share to 20 per cent of the increase in value, and take it in a lump sum to be paid in easy instalments within a certain number of years or at the time of sale.

Q. 21.—I agree with Mr Jones (*vide* the Nature and First Principle of Taxation, page 34) in his opinion on this question He rightly remarks:—"Whatever case is likely to be framed in favour of regarding any kind of taxes as optional is brought up against two facts: that if they are optional, most of them will remain unpaid, and that it is the essence of a tax that it is not optional but compulsory. As it becomes optional it ceases to be a tax, unless we are to let words like "tax" and "gifts" stand for similar conceptions"

Q. 23.—I do not agree with this view

Q. 24.—I would not regard these as optional Those who avail themselves of entertainments, or travel by railways, have no option but to pay.

Q. 25.—I would not, unless my object is to point out that these classes are likely to gain in efficiency because of their abstinence.

Q. 26.—Adam Smith's canons still retain their position in the Science of Finance There has been no material addition to them, though there has been

a good deal of re-interpretation of them and sharp difference of opinion on their relative importance. A convenient summary of these additions and alterations is given in Jones's Principle of Taxation (pages 153-161).

Q. 27.—Yes, every citizen must pay a tax of some sort, *if he has a surplus above the* needs of his family, measured by the standards of the time and place. The test for exemption is the income below the amount needed to support a family on "the very lowest scale of *decent* subsistence" (Seligman pages 27 and 29 Essays) This obviously includes allowance for at least food, fuel, lighting, clothing, and house rent

Q. 28.—This question obviously refers to the political argument against exemption of the minimum of subsistence that it is likely to prove dangerous in a democracy. In answer to this objection, I would invite attention to the following passage in Seligman's income-tax (pages 28-29) with which I entirely agree .—"The political argument has a slight degree of strength. It must, however, be remembered that it would apply at best only where the income-tax is the sole source of revenue Where, as is everywhere the case, we have other forms of taxation, resting directly or indirectly upon the less fortunate classes of the community, either exclusively or in common with the remainder of the citizens, the argument is shorn of much of its force Even in the case of a single income-tax, however, the difficulty can be overcome by putting the control of the expenditure in the hands of officials who have a certain independence in considering the best interests of the community . . . . It may be said, therefore, that neither the economic nor the political argument against exemption of the minimum of subsistence is valid, while the unanswerable argument in favour of the principle is that those particular tax-payers for whom the exemption is claimed are unable to pay an income-tax and at the same time to maintain themselves and their families at a decent standard of life"

Q 30—I am opposed to a poll tax. Its yield cannot be large because if it were heavy it would impose a burden beyond the ability of the poor It cannot take into account the real ability of the tax-payer to pay, it is vexatious and expensive to collect Its historical associations in India are the very worst. Nor has the experience of other countries been in any way encouraging Its economic basis has now vanished everywhere, it is retained mainly for its political significance in Switzerland and in some States of the American Commonwealth, where its payment is a condition of suffrage But if we are to believe Seligman, "even this tends to become a farce to the extent that the payment of the tax is assumed by the political parties" (Essays page 10)

Q 32—I consider these more objectionable than the salt tax, the customs or excise duties on cotton, kerosene oil or matches, but less than the octroi The latter taxes mainly food, an article of prime necessity for the poorest

Q 33—Yes, I would advocate an increase in the rate but only on income exceeding Rs 7,500 I fix the limit at this figure as there seems to be a likelihood that incomes below Rs 7 500 per annum are predominantly 'earned' (*vide* page 284, Findlay Shirras' Science of Public Finance) Moreover, there is reason for believing that the burden of customs falls very severely on classes earning less than Rs 7,500, and that since 1900 the wages of the salaried class in this group have not kept pace with the rise of prices and with the necessary reasonable increase in the standard of living

Qs 34 and 36—I consider it very necessary that the following changes be introduced in the system as early as possible —

(1) Income-tax should be charged only on the surplus above the exemption limit, and not on the *whole* amount as at present

(2) The English principle of abatement should be adopted, so as to permit a gradually diminishing reduction of tax between the limit of absolute exemption, and the point of normal charge

(3) There should be some differentiation between 'earned' and 'investment' income (For a definition of these terms see section 19 of the English *Act of 1907*)

(4) The "domestic circumstances" of individuals must be taken into account, i e, adequate allowance should be made for the number of children, and dependents the tax-payer has to support.

a negligible figure The minimum subsistence allowance to be exempted under Prof. Shah's proposal may roughly be put down at half of 6.04 crores This will leave to the State not more than three crores

Q 40—I do not think that the limit of exemption is higher in India than in England, if it is *reviewed in its relation with the system of taxation as a whole.* The Englishman's necessaries of life were not taxed by indirect taxation before the war. In India the necessaries of life have been taxed by customs, cotton excise duty, salt tax, land revenue, and octroi. Viewed in this point there is no exemption limit in India at all It should further be noted that in other countries the family and not the individual is regarded as the unit of taxation, and that quite a large number of non agriculturists have been hit very hard by the rise of prices owing to the fact that their earnings have generally lagged behind the prices In the big cities of India, the lot of those whose earnings are below Rs 2 000 has been made almost pitiable by the phenomenal rise of house rents, and an increasing difference between the wholesale prices and the retail prices actually charged to the consumers

From the point of the view of the yield of the income-tax, the lowering of the limit will not yield much In fact if the exemption limit is raised to Rs. 7,500, the loss to the State, as I have shown elsewhere, will be hardly 1 crore out of total of over 22 crores.

From the national point of view, it is extremely harmful to force the middle class to lower the standard of life The middle class in India represents the influence of Western civilisation and is the most susceptible to Western ideals of efficiency It sets the pace of progress for the lower as well as the higher classes in India Its expenditure is mostly on objects that increase efficiency Its family budgets show the least taxable capacity from the dynamic point of view In a State where the Government is notorious for its unwillingness to spend adequate amounts on nation-building departments, the class that shows greatest willingness to spend their income on objects that conduces to their real efficiency deserves the greatest consideration This is quite in accord with Dr Marshall's view that "those who apply practically the whole of very small family income to *good* uses should make little or no net contribution to the State" (After War Problems page 318)

I It is perfectly true that there ought to be an exemption limit in the case of payer of land revenue But it is equally true that there ought to be an exemption limit in the case of indirect taxation also The necessities of the State in India make both impossible. As between the poor agriculturist and the poor non-agriculturist, the agriculturist far from being unfairly treated as was the case formerly, enjoys at present an unjustifiable privilege Land revenue which represented 45 2 per cent of the total revenue of Government in 1861-62, today represents only 17 2 per cent, measured in real goods it represents still less for the rise of prices has been greatest in the case of agricultural products · Customs which as late as five years before the war represented only 14 7 per cent formed in 1921-22 as much as 31 4 per cent of the total The customs receipts from cotton goods and sugar are not paid by the agriculturist who consumes only the coarser cloth quite a large portion of which is made in India but by the non agriculturist And these duties are regressive in their nature falling most severely on the classes whose incomes are between Rs 500 and Rs 7 500 per annum Those of the agriculturists who have a surplus to sell have gained from the rise of prices, while those of the non agriculturists whose earnings have not kept pace with the rise of prices have been hit most hard and unfairly Taking the system of taxation as a whole including the inflationary policy of Government into account, a clear case exists for raising the exemption limit and not lowering it

Qs 41 and *42*—I do not think that this reproach can be removed in India unless non-salaried representatives of the local gentry and additional commissioners drawn from the class of expert business men in the case of business profits, are closely associated with the work of the Income Tax Department

Q 43—The vast illiteracy of India makes the adoption of such standard forms of account impracticable

Q 44—To meet this difficulty I would put a stop to the issue of income tax free securities, but in order to prevent discouragement of investment, I would suggest the issue of securities with a particular rate of income-tax specified therein

Q. 47.—In order to do justice to fluctuating incomes I would follow the recommendation of the Royal Commission in Australia that the basis of liability should be taxable income of the 12 months preceding the year of assessment, and that the measure of the *rate* of tax should be the average taxable income for not more than five years immediately preceding the year of assessment.

Q. 48.—1st quotation :—

a This is an echo of the old Victorian slogan, "taxation for revenue only." The aim of the State in levying taxation is not merely to raise revenue by means of its coercive powers; that is more properly the function of a robber. The State does raise revenue by compulsion but it raises it by *just* and wise methods. It tries its utmost to avoid methods that will be unjust to particular individuals and classes or that will cause harm to the *productive* capacity of the community as a whole It raises revenue not for the special benefit of the ruling class but for the *common benefit* of the tax-payers it deprives the tax-payer of a part of his income only to spend it more wisely and effectively than the individual tax-payer *will* or *can* spend. It may not even content itself with the equity of taxation on the basis of existing rights, but even go behind them and "enquire which of them are based on convention or accident rather than fundamental moral principle, and use its powers for promoting such economic and social adjustments as will make for the welfare of the people at large." (Marshall in After War Problems, pp. 317-18)

b Indirect taxes should be limited to a few articles not merely because "the cost of collection is diminished" thereby, but also because they can be *productive* and *elastic* only when the commodity taxed is largely consumed, and the demand for it is so stable that a fairly heavy rate of tax can be imposed without destroying consumption. These conditions are fulfilled by only a few commodities.

c. I disagree from the view that the selected articles should be of such a kind as to touch *all* classes The political argument in support of this view is anything but impressive Indirect taxation disguises the real burden of taxation; the sense of responsibility of citizenship can hardly be felt by a tax-payer under this system of "hidden taxes" The economic evil of this has already been pointed out.

d The last clause that "they should reach in a moderate degree those who do not contribute to direct taxation" should be subject to the qualification —'Provided that their *income or expenditure has an element of taxable capacity*'

2nd quotation.—I entirely agree with Sir Josiah Stamp's view to which the quotation refers But these sentences divorced from the context, are likely to produce a misleading impression They do not emphasise Sir Josiah Stamp's conclusion that "obviously they should be placed on the non essentials" (*vide* p 76 of the Fundamental Principles of Taxation), nor do they mention the fact that the latter part of the statement is true only if "the collective *spending by the State is wiser than individual spending*" (p 74). Both these qualifications are necessary to remember where the rule is [illegible] ember Dalton's warning th[illegible] s of taxation to the compl[illegible] expenditure has led many [illegible]

3rd quotation.—Armitage Smith draws this conclusion as a natural corollary from his previous maxim that indirect taxes must be of a kind to touch all classes I have indicated my reasons for dissenting from this rule and cannot therefore accept its corollary. Indirect taxes on working classes should fall only on the taxable element in wages and must not fall on essentials of life (see Stamp pp. 75 6). Its regressive nature must be corrected by a progressive income-tax (*vide* Stamp p 77). It can be made to conform to the principle of ability only as a minor part of a general system of taxation (Stamp page 71). Even when a national emergency justifies recourse to indirect taxes, the taxation of necessaries must not be pressed too far.

Q 49.—I would limit my choice to the following only :—

(1) Tobacco

(2) Matches

(3) Sweets.

(4) Aerated waters.

(5) Patent medicines.

The last three are really suitable objects of local taxation in municipalities.

Q. 50—The only criticism on this excellent suggestion in theory is that it has never been found feasible in practice Such is the verdict of authorities like Sir Josiah Stamp (p. 68 Fundamental Principles) and Marshall (After War Problems pp. 319, 321, 328). I see no reason to doubt the soundness of their judgment.

Q. 51—I accept the general principles in the statement quoted, but deny their applicability to Indian conditions The amount that any one tax-payer should use for his family and *cattle* is not small compared to the average income of the poorest classes in India. The best test whether the salt duty amounts to a large percentage of a poor man's expenditure is, as the Duke of Argyle wrote in 1869, "its effect upon consumption". And the history of salt tax shows that whenever the duty has been reduced the consumption *per capita* has increased The poor man's demand in India for salt is not therefore inelastic Its adequate consumption is a matter of greater importance in India than elsewhere, because the population here is largely vegetarian It is true that in case of a fiscal necessity all sources may need to be drawn upon, but there has been no such imperative necessity to justify recourse to this most objectionable source.

Q 52.—The question seems to imply that but for salt tax the poorest classes will pay no tax at all As a matter of fact the poor pay in India quite a fair share of land revenue, excise, customs, railway receipts, forest revenue and stamps

Even if this were not a fact, the following in my opinion will press more lightly on the poor than a duty on an absolute necessary for life like salt — tax on tobacco, excise and import duty on matches, or a tax on spices and betel nut.

Q 53—The comparison is not a fair one The rate must be compared with the average income per head of the poorest class, and the burden of taxation as a whole upon this class in different countries.

Q. 56—If the excise on salt is objectionable, so is a protective duty on the imports of salt Both tend to raise the price of a primary necessary of life, and both are regressive

Qs. 61 and *62*—I believe that public opinion will insist on a fair trial being given to a policy of total prohibition at least in selected localities A part of the necessary money may be found by—

(1) Tobacco tax.

(2) A tax on tea and tea shops in large cities

(3) A tax on sweets in large cities

(4) A tax on aerated waters in large cities

(5) Taxation on "betting"

(6) Tax on marriage processions graduated roughly according to the presumptive status of the person marrying

(7) A tax on hotels in cities and refreshment rooms at stations

(8) A tax on all shops where cooked food is sold above a certain minimum schedule of prices

(9) A tax on betels and nuts

(10) A heavy tax on houses of ill fame

These suggestions are all based upon the idea of taxing that element in the taxable capacity of consumers of alcohol and drugs which is likely to increase in case they abstained from noxious drinks Further than this, it is not desirable to go even if the State suffers a loss for some years to come

Q 64—The policy is obviously not a success, since it has not decreased consumption

Q 73.—In a poor country like India, a tariff for revenue purposes cannot but be confined to a few articles. Even now 58 per cent of the total customs is collected from four articles only, *viz*, cotton manufactures, sugar, liquors and metals The experience of even rich countries points to the same direction In the United States 90 per cent is collected from four articles, *viz*, tobacco, sugar, tea and spirits. The indiscriminate extension of indirect taxation in England *after* the Napoleonic wars did not prove productive in its yield of revenue.

Q. 79.—It is impossible to separate the effect of high prices from that of high customs duties in recent years. But the two together have well-nigh killed the hen that laid the golden eggs. A few simple calculations will serve to bring out this point clearly. The yield from the import duty on cotton manufactures during the pre-war year 1913-14 was 213 lakhs as against 484 lakhs in 1921-22. The prices of grey, white and coloured goods in 1921-22 were approximately 2½ times the pre-war average (*vide* Table 48, page 67 of the Review of the Trade of India in 1922-23) This alone should have produced roughly 532 lakhs, had other things remained the same. The duties in 1921-22 were about three times the pre-war level; so making allowance for this factor, the revenue should have been 16 crores roughly, had the *volume of demand remained the same.* But the yield actually was only 484 lakhs The ratio of 1,600 : 484 represents the shrinkage of demand.

Take another article, sugar. The duty in 1921-22 was five times as high as in 1913-14 while the price of sugar in 1921-22 was roughly double the pre-war price. The yield in pre-war year was 92 lakhs only; the revenue in 1921 should have been in the neighbourhood of 9 crores on the same basis of calculation. It actually was only 6½ crores

Much the same thing has happened in the case of liquors; but the reduction of its demand is not a matter of regret, if Government was manipulating tariff in the interest of social reform.

In my opinion the duties on cotton goods and sugar must be immediately reduced The revenue will fall to a negligible amount if at all, but the consumption will increase enormously.

Q 81.—I [illegible] gar, and kerosene oil to about 1½ times the [illegible] abolising all duties that produce less th[illegible] arn, the duty of 2½ per cent on articles [illegible] duty on articles other than metals and [illegible] on articles other than motor *cars and silk goods*

Q 83.—I am in favour of extending the sphere of 'tariff valuation' and specific duties, and curtailing that of *ad valorem* duties, as the latter system places too heavy a responsibility on the customs staff and leads to a general lowering of commercial morale in countries with a high tariff such as India has of late become.

Q. 85.—The staff employed is neither highly skilled nor is above suspicion. So long as a better system of recruitment is not adopted, the department will not inspire confidence in the public.

Q. 87.—*The changes which I have suggested will not, I believe, involve any* substantial loss of revenue Should the unexpected, however, happen, the expenditure should be carefully scrutinised and reduced to the extent of the loss of revenue In the last resort I would pick up the following taxes from the list in Annexure K:—

(1) Advertisement tax.

(2) Tax on motor-cars.

(3) Entertainment tax.

(4) *Tax on turnover sales.*

No. (2) should be a graduated tax, with specially low rates for cars used solely for the conveyance of goods in the course of trade.

No. (4) should be avoided as far as possible, and if levied, should like the Japanese tax exempt any business which does not reach the fixed assessable value or which is not included in a specified list.

Q. 89.—I agree with Hobson that the income derived from these stamp duties on commercial transactions and the transfer of property is, in its final incidence, "at the best nothing but an expensive way of tapping certain bits of income, which left untapped, would yield their quota to ordinary direct taxation, while at the worst they are extortions from persons who possess no real ability at all."

Q. 93.—I consider that the fees levied should only be sufficient to pay for the cost of the Registration staff including pensions and capital cost of buildings.

Q 95.—The older taxes in India, with the partial exception of income tax, are not adjusted to the ability of the taxpayer Hence, I would not increase the older taxes but would prefer a more general extension of the entertainment tax.

Q. 96—I wonder what useful purpose is intended to be served by reviving this old controversy For all practical purposes Government has recognised private property in land; and with all the persistence shown by it in excluding land revenue from the category of taxes in official publications, it has actually treated it as a tax on agricultural incomes I therefore agree with Mr Findlay Shirras in the view that "the question whether land-revenue is rent or tax, is now usually regarded as not worth arguing," and that "it has all the characteristics of a tax and its classification as rent or tax does not in any way affect its incidence or its effects" (*vide* page 216 Public Finance)

The distinction between tax and rent in the land revenue controversy was not based on considerations of pure economics at all; it arose out of a *historical* controversy as to the existence of *State Landlordism* in India from early times, and the consequent rights of the British Government as the heir to the claims of previous rulers Economic theory can shed no light on this question of ownership of land in the past or on the inherited rights of the British

Whoever be the owner "economic rent" in the sense of surplus of production over the expenses of production on the extensive or intensive margin will always exist. When the State compulsorily takes away a part or the whole of this surplus, it is immaterial whether we call it 'rent' paid to the State as the real owner of the land, or a *tax* on "economic rent" paid by the owner of the land *to the State as a compulsory contribution.*

When the State takes away by taxation more than this surplus, the excess is a tax on wages and interest. Whether this is actually the case in India at present, is not a matter of 'pure economics', but a question of fact. The principle of land revenue assessment enu[illegible] should represent a share of the [illegible] assets" or the actual rents paid [illegible] rent' or under competitive co[illegible] the "net produce" which in M[illegible] be "the difference between the assumed value of the gross produce and a very liberal estimate of the expense incurred in raising and disposing of the crop" actually approximates to "the probable surplus produce of the land, after deducting the cultivator's necessaries and his little luxuries according to the customary stand of the place, and on the supposition that he cultivates with the energy and skill that are normal in that place," is not a matter of theory but a question of fact

Even if the facts are in accord with the principles laid down by Government, land revenue in areas which are permanently settled and where the tenant is protected by legislation is not a 'rent' at all It is only a share of the receipts of the firm consisting of the tenant, landlord, and the State under the terms of partnership In raiyatwari tracts settled temporarily (except in Bombay) the *charge as between man and man may be*, as Prof Marshall points out, of the nature of economic rent "But since unequal *charges will be levied in two districts* of equal fertility, of which one is cultivated by a vigorous and the other by a feeble population, its method of adjustment as *between different districts is rather that of a tax than a rent* For taxes are supposed to be apportioned to the net income which is *actually* earned, and rents to that which would be earned by an individual of normal ability; a successful trader will pay on ten times as large an actual income ten times as larger a tax as his neighbour who lives in equally advantageous premises and pays equal rents" (Marshall, page 642)

Q 98—There is a considerable element of truth in the 1st point of criticism. Of the five tests of ability laid down by Sir Josiah Stamp (pp 14 15) the land revenue system takes into account only the quantitative aspect, and the time element, and it practically ignores others, specially the domestic circumstances. Neither the principle of exemption of minimum and abatement, nor of graduation has been introduced in it

The second point of criticism confounds '*eternity*' with '*certainty*' The time of payment, the manner of payment and the amount to be paid during the period of settlement are all clear and plain to every body. The revision of

assessment after every thirty years does involve to some extent the element of arbitrariness; this can only be removed by codification of Land Revenue rules, etc.

The official tyranny and extortion is largely due to the system of administration which combines revenue and magisterial functions in the same hand, but it is not inherent in Land Revenue system except so far as it taxes very small incomes.

Q 100—Obviously Rs. 2,000 is not a subsistence level for a family of the poorest class The exemption limit has been fixed at this figure obviously to minimise the cost of collection. The limit can however be defended on the ground that it redresses the inequality of burden imposed by heavy customs duties on cotton goods and sugar, which are regressive in their incidence It represents roughly the conventional minimum standard of comfort for a middle class family in urban areas who spend quite a large percentage of income on rent, clothing and education, milk and ghee

It is certainly impossible for any taxing officer to ascertain exactly an agriculturist's income in *money and in kind* But it is not impossible to lay down conventional standards of presumptive income from particular sizes of holdings devoted to particular crops, in particular localities. That will serve the purpose in view.

I see no reason why this should lead to further fractionisation of holdings, if it varies with the number of persons maintained out of a holding The tendency can, moreover be checked by according a preferential treatment to those who own a compact holding of a fixed minimum size. If the exemption limit in the case of income tax has not led to undue fractionisation of property, there seems to be no reason why it should in the case of Land Revenue, especially when an exemption allowance is made for each individual.

Q. 101.—In connection with this question I would draw attention to an article on the subject by the Hon'ble Mr G. F. Keatinge in the Indian Journal of Economics, Vol II , pages 180—230, describing the experiments made in other countries which suggest drastic legislation, involving the principle of—

(*a*) Compulsory expropriation

(*b*) The compulsion of all concerned to accept restripment when a certain fraction of the landholders desire it, and in extreme cases even without the desire of a certain fraction.

(*c*) The subsequent indesirability of the reconstituted holding.

(*d*) The exemption of the reconstituted holding from seizure for debt, involving the condition that loans cannot be raised on the security of the holding.

(*e*) Not allowing the reconstituted holding to be combined with other holdings.

Q. 102—I would, if this waste land is given in large plots to zamindars, but not if it is given in small plots to peasant proprietors. In any case I would not apply it if the period of ownership is limited to less than 99 years

Q. 104—I prefer the method of comparing the percentage borne by land revenue to net produce including under the cost of cultivation a reasonable allowance for the work done by the members of the agriculturist's family. The first method is unsatisfactory, as the total population includes many who do not pay land revenue and whose number in the aggregate varies from period to period The second makes no allowance for the uncultivated portion of the occupied area, nor for the varying yield and varying expenses of production in different areas The fourth will give unsatisfactory results in cases in which the actual contract rent is more than the economic rent or the producers' surplus. The third is not so exact as the last.

Q. 107—The cost for public ownership is strongest in the case of mines; and if these are left in private hands, the profits should be taxed at a much higher rate

Q. 120—(i) I regret I am not able to understand what exactly is meant by the proposal. If the object of varying the tax with the size of the family is to

-exempt the necessary subsistence allowance for the family members, it cannot be a 'universal' tax, embracing *every income*. If it touches *every* income irrespective of the number of men supported by the income it cannot vary with the size of the family.

It seems to be intended by the author of the proposal as a single ideal tax in place of the multiple system now prevailing. But income, through in many respects a better test of faculty than property expenditure or product, is as Prof. Seligman has pointed out (*vide* Income Tax p 17), not a thoroughly adequate test, for the simple reason that no single test of ability can be found which will adjust itself to the varying needs of individuals. But apart from this serious objection, a single exclusive income tax with a progressive rate, the dream of the socialists in Europe, is inexpedient in India for three reasons :—(1) Public opinion in India is anything but socialistic at present, (2) such a tax demands a standard in administration which is almost unattainable for many generations to come, (3) and it requires a standard of honesty on the part of the tax-payer in his dealings with government which no foreign government can ever hope for.

(ii) I have alrea[illegible] a
succession duty, ([illegible]
tax on houses. A [illegible]
Marshall in their [illegible]
in England that [illegible]
an urban tax exclusively, it cannot therefore be a *national* tax in any sense of the term The housing problem in Indian cities has already become an acute one; and in a country where Government is practically an indifferent spectator of the growing evil and where the co operative housing movement is in its infancy, a tax of this sort will fall on the occupier who has already been hit hard by the rise in rentals A tax on the *selling price* of the houses levied at the time of transfer would, however, not be objectionable, but I would reserve it exclusively for municipal taxation in view of their limited resources at present.

A succession duty has been long overdue A steeply graduated duty on inheritance has "approved itself increasingly to the ethical conscience and to the practical counsels of administration" (Marshall) practically all over the progressive world The only difficulty peculiar to India is the existence of Hindu joint family, but it should not be beyond the resources of a civilised government to solve this

As for a tax on horses, servants, and other means of display, I doubt if it can be productive in India It is far better to levy a duty on goldsmith and jewellers if revenue is the objective A tax on the capital value of ornaments would be far more productive, but it is likely to lead to considerable harassment in India, where men dressed in brief authority have already earned for themselves an unenviable reputation

(iii) I am afraid a tax on dowries will easily be evaded

(iv) I have nothing to add to what I have already said on the taxes mentioned in this list I would limit income-tax on agricultural incomes only to areas settled permanently, to extend it to other areas will be very unjust to the rural classes I shall, however impose a tax on the sales of agricultural land, increasing the rate per thousand rupees of the sale price progressively

(v) I am inclined to be rather cautious in the matter of export duties, but the results of the last increase in the duty on jute in 1916 and 1917 seem to indicate considerable room for a further increase The case for an export duty on shellac seems to be a strong one, while that of a further increase of duty on hides and skins a weak one

(vi) I do not believe very many will avail themselves of the proposed offer of redemption of land revenue for 30 years' revenue in cash But it would be an encouragement to progressive landlords, and I see no harm if it is given a limited trial in a selected area

Qs 123 and 125—I think the first is likely to present the least administrative difficulties in India.

Q 124—No control of cultivation is called for by the first method

Q. 125.—The duty should vary with the *average* yield per acre in particular areas In matters of this sort exactness is unattainable.

Q 126.—No. I think the agency which assesses and collects the district local rate (Road Public Work Cess) and the village chaukidari tax can be utilised to some extent.

Q. 127.—It should not be impossible to induce the Indian States to adopt the same system of taxing tobacco to the same extent.

Q. 132.—If the object is revenue, the excise duty should be the same as customs duty.

Q 133.—I prefer the system of specific duties and tariff valuations

Q 135.—An excise with a corresponding or slightly heavier customs duty will not tend to handicap an industry.

Q 137.—Yes

Q 138.—I would employ both the second and the third methods, make the tax "progressive in time" as is suggested by Prof. Rignano, and exempt a minimum of inherited wealth

Q 139.—In (1) I would substitute for the words, 'at unchanging rates', the words, "at rates which should be relatively permanent, not shifted under the influence of political overturns or of current fiscal needs" (*vide* Taussig Art 6 page 534, Vol. II).

(2) and (3). I agree that Prof. Taussig's suggestion is the only practical way out of the difficulty

Q 140.—I consider the English scale quite appropriate for India if the tax is imposed on the amount inherited by each individual heir

Q. 141.—*I consider (a) quite appropriate if, as is suggested* by Mr. Findlay Shirras (page 311), it is limited to the occasion of the death of a coparcener of the oldest generation of the joint family

Q 143.—The difficulty is peculiar only so far as joint family and joint ownership in the family property are the rule, rather than the exception in India.

Q. 149.—No, it is not fair to Bombay and Bengal, which ought to get a larger percentage of the income-tax.

Q 150.—The present basis of division is not at all unsatisfactory. Only the percentage of the proceeds of the income-tax payable to Bombay and Bengal has to be changed

Q. 151.—Yes

Q. 152.—Yes

Q 153.—Yes, only when the Central Government has a surplus of revenue above a certain limit

Q. 155.—It all depends on the tax which it replaces. If it replaces the excise it should be entirely a provincial source of revenue If it takes the place of salt duty, it should be a central source of revenue.

Q 156.—I accept the reasoning. A division of the yield is not at all impracticable

Q 157.—Only so far as the uniformity of rates is concerned It is not at all necessary that it should be centrally administered.

Q 163.—I do, including under "State enterprise," all municipal undertakings

Q. 164.—The State should take over "Life Insurance," but not as a monopoly.

Q 165.—Except for the purpose of regulation I would not, until the Indian Government becomes national in spirit and learns to respect the consumer's interests in articles like salt and matches.

Q 167.—Yes

Q 171.—Conditions here are just the reverse. What is needed here is some degree of independence of the assessing authority from the control of the executive government which is responsible to no popular control.

Prof. Chablani gave oral evidence as follows :—

The President Q—You object to the scope of our questionnaire. But don't you think that we would have gone beyond our terms of reference if we had included all that you have suggested?

A.—No, I am afraid that the terms of reference are being interpreted too narrowly. No enquiry into taxable capacity can be complete without considering all essential elements in the problem

Dr. Paranjpye Q—But how could we go into the expenditure of Government in India?

A.—My contention is that the use to which taxation is put is an essential element in the problem; and all expert authorities on taxable capacity have always recognised this fact.

Sir Percy Thompson Q.—Can you give any instance of an enquiry into taxable capacity which entered into questions of expenditure?

A.—Take the recent discussions on Germany's capacity to pay Did not the experts point out that the fact that Germany was required to pay large sums to foreign countries was a material factor in determining the taxable capacity of the German nation? Or take the older controversy on Ireland's taxable capacity. The experts even then laid stress on the nature of expenditure.

Dr. Paranjpye Q—In reply to Question 7, you say that "an enquiry into the incidence of taxation must involve investigation into the taxable capacity of a country The latter cannot be determined without some estimate of national income" Do you mean to suggest that a determination of the national income would not be very useful?

A.—All that I say is that a mere estimate of national income would not do, this is only one element among many.

The President—We do not propose to examine you in detail on questions Nos 1 to 8; we will transfer a copy of your answers to those questions to the Economic Enquiry Committee and ask them to take such further action as they think desirable

Dr Hyder Q—With reference to your answer to question No 12, will you please explain how you make out receipts from Forests to be an item of taxation?

A—I would follow Sir Robert Giffen's definition of a tax if the intention is to consider the burden of taxation on the community as a whole Then you have to consider the revenue from taxation in relation to what remains in the hands of private people What is taken away by Government is something that is deducted from what would otherwise have remained in the pockets of private individuals

Q—I cannot understand how the income of Government from Forests can be taken as an item in taxation Your answer refers to the increase or decrease in the national dividend

A.—Supposing Forests had been, for instance, left to private people would not anything taken by the State from the income from forests have been considered a deduction from national income? In this matter, we are not considering questions of legal rights Government may have a legal right to a particular thing, but if you are going to consider what the cost of Government to a country is, anything appropriated by Government under its coercive powers for its own purposes is a deduction from the net amount produced by the country.

Dr Paranjpye Q—Take an illustration of a State which does not levy any taxes at all Instead of Government possessing investments, if they had been distributed to the people, the people would have got something more.

A.—Supposing Government had not Forests in their control, private people would receive some income from them and Government might have taken a part of that income as a tax.

Q.—These forests did not belong to anybody at all before, it is not a question of taking away from anybody.

A.—We are not using the word tax in the legal sense, but in the economic sense.

Sir Percy Thompson. Q.—Supposing the State for a period of 20 years saves out of taxation a considerable amount and it invests it in foreign loans?

A.—Then the income received would amount to a remission of taxation.

Q.—I understood you said that any income taken by the State is taxation.

A.—If the intention is to consider the burden of taxation as a whole as compared with the national income of India, but if you talk of individuals, then it is not a tax, as I have pointed out in my written statement.

Dr. Paranjpye. Q.—It is not a burden of taxation at all; it is the income of Government certainly. Suppose Government makes money on mines on Government's own domain, discovered as Government property, would you still say it is a deduction?

A.—How are Government going to meet the expenses? If you mean by a tax the amount appropriated by Government in virtue of its powers, then certainly it is a tax. It is not a question of legal rights of individuals or Governments that we are considering.

Sir Percy Thompson. Q.—Will you treat all expenditure in the same way, because all expenditure by the State must come from taxation?

A.—Yes, it is a deduction from the aggregate income of private people.

Dr. Paranjpye. Q.—Aggregate income which might possibly accrue to the whole country?

A.—Supposing Government deprived us of all our rights of private property, would you say that the State has not taxed us?

The President. Q.—You vary Sir Robert Giffen's definition.

A.—No, I stick to it if the object is merely to find out how much Government appropriates from the total national dividend.

Q.—But Sir Robert Giffen's definition refers to "contributions by individual members of the community."

A.—He considers the whole revenue of the State apart from loans and tribute as taxation.

Dr. Paranjpye. Q.—It is not a tax upon any particular individual of the State, but it is still a tax?

A.—Yes, on the community though not on the individual. You are merely trying to find out what portion Government takes out of the national income; that is what will measure the real burden of taxes on the country as a whole.

The President. Q.—I understood you said just now that the whole expenditure was taxation.

A.—Apart from loans and tribute.

Q.—The definition here states "a part of the revenue of the State which is obtained by compulsory charges upon its subjects."

A.—It is compulsory, because the State uses its own power to appropriate something.

Q.—But I understood that the whole of the expenditure was taxation.

A.—It would be if your object is to measure what the country gives to Government for its own expenses.

Sir Percy Thompson *Q*—Then the interest on the Suez Canal shares is taxation?

A.—That is income from outside the country.

The President *Q.*—There is no such thing as State domain?

A—My own idea is that you must really give your answer with reference to the object in view. If your object is to find out how much Government takes away from the national income for its own purposes, surely the income from public domain must be included in your estimate, but if your object is only to find out what the burden is on particular individuals, it is a different thing altogether.

Q—Our object is to ascertain what the existing level of taxation is Our functions are confined to redistributing within the existing level

A.—I rather think that the object is to find out what is the total burden of all Government taxes on the national wealth of India.

Dr Hyder. *Q*—May I invite your attention to your answer to question No. 13? I do not understand what you mean by the statement that "when the object of Government in assuming ownership of an enterprise is public welfare and not the satisfaction of its own revenue needs, it should content itself with a commercial return under competitive conditions" When a commercial firm operating under competitive conditions charges a price, surely that commercial return renders a service or delivers goods the value of which is equal to the value of what it supplies

A—Yes

Q—I do not see how the State, when it makes such a charge as to exact full value, can follow the object of public welfare

A—I mean that when Government aims at public welfare, it may charge less but not more than a commercial price

Q.—What do you mean by commercial price?

A—In some cases, Government may charge much less than a commercial firm, when the object is predominantly public welfare In the other case, it may charge much more than a commercial firm, merely with a view to tax certain classes of people In the third case, it only steps into the shoes of a private commercial body under competitive conditions, in which case it should aim at a commercial return

Q—It is not carrying out the object of public welfare then

A—It is not predominantly public welfare

The President *Q*—May I take it that the recent budget would satisfy you? As regards railways, you have a certain amount credited from the railway account to the general budget May I take it that in your view the amount of taxation taken by Government is 1 per cent over and above the charges?

A—It is much more than that, because the State is spending much more than a commercial body

Q—Do you suggest that railways are inefficiently managed?

A—Certainly

Q—If a State enterprise is inefficiently managed, the difference between the cost of management by the State and management by a commercial body is a tax?

A.—It would be a tax

Dr Hyder *Q*—Are the working expenses of the lines run by private companies much lower than the working expenses of those run by the State?

A.—The private companies have been subsidized and there is a guarantee.

Q—A guarantee simply means that private enterprise cannot pay its way.

A.—Its only effect in India has been that they have no sufficient incentive to work on commercial principles Where the State gives a guarantee, there is no incentive to economise.

Dr. Paranjpye. *Q*—Private companies would not come in unless the State gave the guarantee

A—That is true in the beginning. The railways everywhere will not pay in the beginning, but private companies aim at developing the traffic and so reducing the cost per unit.

Dr. Hyder *Q*—Do you mean to say that the State lines are not following this principle of experimenting with the rates to see whether they cannot alter them?

A—I do

The President *Q*—Do you mean that no company ever made more than the guaranteed interest?

A—I am talking of the railways as a whole

Q—I know of a company whose guaranteed interest was 4½ per cent, but it has been paying 7 per cent, do you say they had no incentive?

A.—I am not talking of any particular company; I am talking of the net result of the policy as a whole

Q—But you say that they will not take any interest Here is a company which has shown its interest by raising the guaranteed interest from 4½ per cent. to 7 per cent

A—Let us take a specific instance The intermediate class fares have been increased and the traffic has practically been killed And Government are not going to lower them even the last budget did not lower these.

Dr. Hyder *Q*—Could you give us some figures about the killing of the intermediate class traffic?

A—I can show that the number of passengers in the intermediate class has decreased.

Q.—I thought the actual state of affairs was this: they put up the fares of the first and second class considerably and a number that travelled by those classes dropped down into the intermediate class, so that the total number of passengers carried by the railways increased considerably in the intermediate class.

A.—The latest Administration Report for railways itself admits that the number of passengers in the intermediate class has gone down.

The President *Q*—What happened to those people who formerly travelled by the intermediate class? Do they travel third?

A.—People have reduced their travelling to the minimum. Take even the third class; the pre-war rate of increase has not been maintained.

Q—Suppose you abolished the intermediate class altogether, would not the effect be to increase the number who travel by second?

A—Only of those who must travel. All travelling is not reduced necessarily to the minimum.

Q—If people travel merely for the pleasure of travelling, is it not a luxury?

A.—It is not exactly a luxury, there are all sorts of gradations between luxury and absolute necessity.

Q.—Would you be satisfied with the commercial accounts in the telegraphs?

A.—Recently, there has been a loss.

Q.—Are you satisfied that there is no taxation there?

A.—I am not satisfied at all. Attempt has not been made to increase the traffic; under competitive conditions there would, as a matter of fact, be an incentive to commercial enterprise to increase the traffic and lower the cost per unit.

Q.—How can you have competitive conditions in a post office?

A.—I mean that the State should make an experiment of lowering the rates, just as every commercial company under competitive conditions does.

Dr. Paranjpye. *Q*.—When the rates were recently lowered, the Posts and Telegraphs made even greater loss.

A.—What were the working expenses then? In all the commercial enterprises of Government, the working expenses have been mounting up

The President *Q*.—Do you mean that the staff should be paid less?

A.—Not merely the lower-paid staff, but also the higher officers The Inchcape Committee recommended a large number of cuts which have not been carried out

Dr. Hyder. *Q*.—It is the peons and lower class menials who are hit to a great extent by the rise in prices

A.—Quite true

Q.—So that, in this matter the State is in exactly the same position as any other commercial firm. There is a rise in prices, people strike for higher wages and consequently, the working expenses are increased

A.—You will see that the expenses of the establishment are much greater than the increase in the cost of living index number, or the increase in the wholesale prices or even in the retail prices The working expenses as a whole are not in proportion to the rise of prices at all, measured by the index number of the cost of living or the index number of wholesale prices or even of retail prices

Q.—In your reply to Question 14 (*d*), you refer to profits on coinage, exchange and currency as a general tax I cannot understand for the life of me how the profits on coinage reduce the value of money

A.—At present we have the rupee as practically an inconvertible coin

Q.—If a coin is inconvertible how can its value be reduced, irrespective of the fact that there is no alteration in the quantity?

A.—There is alteration in the quantity, Government have been over-issuing inconvertible token coin

Q.—There has been an increase and surely that would exercise an influence on the value of the rupee; but if Government extracted a certain amount of silver or if the Government of any other country extracted a certain amount of gold and did not increase the total number of coins, how does the value of such a coin decrease merely on account of the fact that Government had extracted a little portion of the metallic contents?

A.—The mere fact of inconvertibility leads to overissue

Q.—How do you make that out?

A.—Because if there is a convertible coin, there is an automatic check on expansion; people melt and convert the coin to bullion in case of excess

Q.—Has there been an overissue of rupees?

A.—Yes

Q.—Then, if Government, instead of putting 16 annas worth of silver into the rupee, puts only 10 to 12 annas worth of silver, it has nothing to do with the question that the value of the rupee has been reduced.

A.—It has because the rupee is inconvertible

Q.—When people lose all confidence in the coin, then of course its value might be reduced.

A.—I did not say that people would lose *all* confidence; it is a question of relative degree The rupee is practically an inconvertible note printed on silver.

Q.—What has this fact got to do with the reduction in the value of the rupee?

A.—Whenever a coin is convertible, there is an automatic check on expansion and overissue Take the busy season, Council Bills are sold in the busy season and more currency is issued, but when the busy season is over, there is no automatic process of withdrawal People cannot present them and convert them into gold.

Q.—Suppose you had a gold coin and Government, instead of putting Rs. 20 worth of gold into the coin, put only Rs. 18 worth of gold.

A.—That means it will not be convertible.

Q.—Then you say that the monetary value of such a piece would by this act of Government be reduced?

A.—Yes, it will not be melted, when people would find that there is too much currency.

Q.—You do not think that Government could provide a country with an inconvertible coin and maintain its value?

A.—It can, certainly, but it has not done so in India as there is unquestionably a rise in prices.

Dr Paranjpye. *Q.*—Would it apply to subsidiary coins? They are not convertible.

A.—They are convertible into standard coins.

Dr Hyder. *Q.*—Not to an unlimited extent.

A.—No

Dr Paranjpye *Q.*—Would you call the profits made on subsidiary coinage a tax?

A.—No, I would not, if they are limited legal tender.

Dr. Hyder. *Q.*—You still adhere to the statement that it reduces the value of money?

A.—Yes, by encouraging overissue

Q.—And you think there has been an overissue?

A.—Certainly.

Q.—So that, what does reduce the value of money is the overissue, not the reduction in the silver contents of the rupee?

A.—It is the overissue, because of the reduction.

Sir Percy Thompson *Q.*—The gold exchange value of the rupee at present is 1/6, it was 1/4 before.

A.—It is not the internal value.

Q.—It is the value with reference to the standard of gold.

A.—External value is governed by different causes from internal value.

Q.—I do not know what you understand by internal value

A—I mean the value in terms of commodities indicated by the level of general prices.

Q.—The prices have increased owing to too many rupees being issued?

A—Since 1900 they have.

Q—I suggest that the immediate effect of this would be a fall in the gold value of the rupee

A.—Not necessarily, so far as the value of the rupee in gold is concerned, that is the external value of the rupee, it is governed by different causes, for instance by the loans taken by Government from English people

Q—Why did German marks depreciate in value?

A—Because the overissue was proceeded with at a very rapid pace

Q.—The moment there was an overissue of marks, the mark began to fall, in India if the rise in prices is due entirely to the overissue of rupees, the gold-value of the rupee is bound to fall

A—If the gold prices rise even more rapidly than the rupee prices, what will happen? Exchange will certainly go up Exchange is determined by the relative price levels Supposing in England gold prices go up very rapidly, in spite of the overissue of the rupee in India, it may not result in a fall in the external value of the rupee

Dr Hyder *Q*—Surely, the external value of the rupee is governed by the price level in India

A—It is governed by the relative price levels in India and in foreign countries.

Q—The point Sir Percy Thompson was putting to you was this on the one hand we have a rise in the external value of the rupee, and this rise could not take place if the price had risen in India

A—Supposing the prices in India were less than the price level at the ports in England, the rupee value would rise

Sir Percy Thompson *Q*—In point of fact, has the price level in India measured in rupees increased to a greater extent than in England?

A—Not after the War

Q—There is more inflation here than there was in England?

A—I do not say there was more inflation here after the War

Dr Paranjpye *Q*—What would have happened to the price levels if the rupee had been convertible?

A—A large amount of the rupees would have been withdrawn

Q—The present level of prices would have probably been much higher

A—No, it would have gone down Take the conditions under silver mints before 1893 The annual absorption was hardly sufficient to keep pace with the growth of business, because a good deal of it was melted

Dr Hyder. *Q*—A good deal of the rupees was melted before 1893?

A—Yes, and therefore the price level did not rise to the extent it did after 1900

Q—Would not there have been a greater rise of prices because of the fall in the value of silver?

A—As a matter of fact silver fell in value because of its demonetization and India was a contributory cause to the demonetization of silver.

Sir Percy Thompson. Q.—First of all you establish that the rupee prices in India have risen more than the corresponding prices in a country that has a gold standard.

A.—There is no automatic gold standard anywhere. In America gold itself is at present a managed currency. If you take the years before the War, I do contend that the rise of prices in the gold standard countries is less than the corresponding rise in price in India.

Q.—You mean between 1900 and 1913?

A.—Yes, that will show the effect under normal conditions.

Q.—My point is that you should take the period between 1900 and 1924. Your statement that there has been undue inflation in India is negatived by the fact that the gold price of the rupee is higher to-day than it was in 1900.

A.—Because, after the War and during the period of the War there has been a greater inflation in other countries.

Q.—There has been no inflation in the United States of America.

A.—As a matter of fact, the United States of America has not a perfectly free automatic gold standard.

Q.—The United States of America has got a large quantity of gold and do not know what to do with it.

A.—Yes, but that only shows that under natural conditions the value of the rupee in gold would rise.

The President. Q.—You think that water rates should be increased and that it is correct to take a betterment tax?

A.—Yes.

Sir Percy Thompson. Q.—You say that you would fix the State's share at 20 per cent. of the increase in value; is not 20 per cent. a low figure?

A.—I do not think so.

Q.—You have to remember that the people to whom this benefit would be extended would be selected people.

A.—Yes.

Q.—Is that not undue generosity?

A.—I do not think that at the present moment there is undue generosity, considering all taxes together. I personally only advocate it as a first instalment of a betterment tax.

Q.—At the present moment you take 50 per cent. in the way of land revenue.

A.—That is a different matter.

Q.—That is the increased value.

A.—You take only the increased productivity. The price of land has gone up much higher than is justified by the increase in productivity; and therefore 20 per cent. of that increased value is not a small amount.

The President. Q.—Do I understand you to say that, if a tax were imposed on tobacco, it would be a burden on the Sikh community?

A.—It would not be a burden on the Sikh community; but I would not therefore punish the Sikhs for their abstinence by imposing on them a new tax.

Q.—In your reply to question No. 26, you refer us to eight pages of matter in Jones' Principles of Taxation. Does that represent your views?

A.—Not entirely.

Q—Could you give us very briefly your view of the modern interpretation to be placed on Adam Smith?

A—Personally I would accept that his principles are applicable even now.

Dr Hyder *Q*—Would you give us the principle on which we could recommend to Government a scheme of taxation? I want you to interpret the canon of "ability to pay"

A—I would first of all have economy as the first principle of taxation.

Q—Economy in what?

A—Economy in everything, especially in the sense of the economic effects of taxation on the production of wealth in a country

Q.—Any tax on the holders of property would affect the national dividend?

A.—Yes.

Q—Therefore, the tax ought to be paid by people who, as a matter of fact, own no property?

A—I do not say that.

Q.—Who should pay the majority of the taxes, the rich or the poor?

A.—Certainly, the rich

Q—The greater their riches, the larger the amount?

A—Yes.

Q—But you would not get at every rupee or pound?

A.—Certainly not, that will be logically confiscation

Q.—But this confiscation, I think, is justified in theory

A—I do not think it is justified in theory, because confiscation might lead to sapping the very springs of wealth

The President. *Q*—As regards the incidence on the poorest classes, you agree with the quotation from Seligman which you give in your written statement about the necessity of an exemption from income tax?

A—Yes.

Q—The point of the question is whether an electorate, a great majority of whom pay no taxes, is not liable to extravagant expenditure

A—Experience does not justify that

Dr Hyder *Q*—Does not the experience of all democracies justify that?

A—As a matter of fact, indirect taxation is not absent entirely anywhere

Sir Percy Thompson *Q*—You say "If, however, Government is frightened by administrative difficulties in the way, the simplest course would be to raise the exemption limit from Rs 2,000 to Rs 7,500 in the case of collections from individuals only The total loss of revenue would be perhaps not much more than one crore?" How do you get it?

A—I have taken from returns for the year 1918, the amount of income tax paid by different classes of people If you refer to the figures in the Financial Statistics Volume 1922, you will find these figures in the table No 116 That gives the figures for incomes between Rs 2,000 and Rs 7,500

Q—Are the rates the same now as they were in the year 1918?

A—Between Rs 2,000 and Rs 7,500 they are the same

Q—You say that "domestic circumstances of individuals must be taken into account, i.e., adequate allowance should be made for the number of children and dependants the tax payer has to support" And you say "if

countries like Japan, Canada, not to speak of England and the United States have been able to make allowances for the number of dependants, I see no reason why it cannot be done in India." What they have in England is one standard rate with abatements of a slice of the income, don't you do very much the same in India?

A.—I do not think so. It differs in individual cases. I personally think the fair thing is to measure the ability of each individual to pay.

Q.—Then with regard to family allowances and the distinction between earned and unearned incomes, it has been suggested to us, although in theory it is thoroughly justified, that it is not worth while in a country like India to adopt the system since rents are not liable to income-tax and there is not very much unearned income.

A.—You will find much that is investment income rather than earned income.

Q.—There is not a vast amount of that, as we are told by the Income Tax Department people?

A.—Mr Findlay Shirras calculates that incomes above Rs 40,000 are predominantly 'investment' incomes

A.—If you find that the cost of administration goes up, exempt all persons below Rs 7,500, as I have suggested in my written statement

Q.—Will it not lead to an unnecessarily inquisitorial procedure in a country like India if you make allowances for the number of persons supported out of particular incomes?

A.—I do not think so. It is very likely that you will have public opinion in your favour

Q.—How can you check such claims? In India it will involve private enquiries?

A.—Gradually you can overcome all these difficulties. You have now the registration of births which is going on very smoothly. I only contend that the moral opinion will be in favour of Government At present it is against the Government.

Q.—But the conditions are different in England, where the income-tax payer is frequently a single man, that is not the case in India Here everybody is married

A.—In India you have persons who have to support many dependants apart from wife and children You cannot ignore the fact that in India a man has to support a certain number of dependants such as brothers, etc. I personally feel that in the matter of taxation, public opinion is to be taken into account, and I feel if this principle is adopted public opinion will be with you. You will have to take always into consideration the individual's ability to pay That must be the principle I have already said that if there is the fear of too many difficulties in the way, then raise the exemption limit to Rs. 7,500. I do feel especially the middle class people are very much oppressed by the present practice

Q.—Then with regard to agricultural incomes, I gather that you make rents liable to income-tax but not profits of agriculture?

A.—Yes, not the profits

Q.—Why not profits?

A.—Because in my opinion in many cases the man himself is a personal worker, that is why the labour incomes are always exempted to a certain extent and you always differentiate in favour of labour incomes. In matters of taxation you cannot be strictly logical I justify it on the ground that among the rent receivers in agriculture there are many who do not work on the land.

Q.—I am comparing only the people working on the lands with the people working at a desk. I do not see why you tax one and not the other?

A.—I do not think that there are many cultivators who would come under this category. There may be only landlords who might come under this head

Q.—You do not think that there will be any breach of faith if you charge on rents?

A.—Well, in Bengal, it would be a breach of faith so far the British Government is concerned But the nation never made a promise and never made an agreement with the landlords

Dr. Paranjpye. *Q*—If complete provincial autonomy is given, you will consider that promise is entirely gone?

A.—Yes. Rightly or wrongly there is a feeling that the Government is going back upon certain definite promises.

The President *Q*—Do you consider the Government of the future will entirely repudiate any promise made by the Government of the day?

A—When the British Government first came here it may, on account of certain special circumstances, have given certain privileges to particular people to conciliate them politically.

Q—Would you carry that principle to the extent of repudiating loans?

A.—No, I won't.

Dr. Hyder. *Q*—Your answer shows that in that particular period of Indian history the Government of this country conciliated the landlords and so conferred on them permanent settlement. I ask you what were the special circumstances, was there any political agitation?

A.—It may be that the foreign government did not understand the land-revenue system of this country and they had therefore blundered to such an extent as to make it necessary to conciliate the zamindars by permanent settlement

Sir Percy Thompson *Q*—You say that "necessaries of life in India are taxed by land revenue among other taxes" Is it correct to say that land revenue raises prices of foodstuffs?

A—In certain cases the prices of foodstuffs go up because of the land-revenue.

Q—Does land revenue ever exceed the economic rent?

A—It is the contention of some that it does sometimes The older generation of non officials often said that land-revenue was most unfair and that it was a tax on wages

Q—Will you please mention some names?

A.—If you read the late Mr Dutt's books you will find that this is his contention

Dr Hyder *Q*—Suppose land revenue does not exceed economic rent, in that case, land revenue would not influence the prices?

A—No.

Q—Are you basing your statement on Mr Dutt's book or on actual figures?

A—All that I say these figures have been questioned by some writers who have had experience of land revenue settlement work, I have not investigated the matter myself

The President *Q*—May I draw your attention to the fact that Mr Dutt proposed to make one-fifth of the gross assets the maximum of land-revenue?

A—Yes, that is true But I do not agree with all that Mr. Dutt says

Q—Would anybody cultivate land which is assessed beyond the economic rent?

A—Why not Did not the same thing happen in Ireland? If there are no other occupations people will have to resort to this In India people are driven to cultivation because there is no other industry to which they can transfer their capital and labour

Q—You mean driven to cultivate at a loss continuously?

A—Yes.

Q—Is the loss reflected in the sale price of the land?

A—It may be or it may not be

Sir Percy Thompson *Q*—Do you know that agricultural land in Berar is selling at 250 times the land revenue?

A.—I do not know that.

Q.—If the land revenue is high, why should the lands fetch higher prices?

A.—Because there is thirst for land in India quite out of proportion to the income from land.

Q.—You say in reply to question No. 44, that you would put a stop to the issue of income-tax free securities, but in order to prevent discouragement of investment, you would suggest the issue of securities with a particular rate of income tax specified therein. How would that system work?

A.—Certain people will pay. There will be certain securities bearing one rate of interest and another bearing a different rate of interest. People will know what they should expect to get.

Q.—Surely it would be a gamble.

A.—I don't see how. People would only know what the State is going to take from them.

Q.—With regard to the objection that income tax is a tax on honesty, you say, that this reproach can be removed only when you associate with the work some non salaried representatives of the local gentry? How is it possible, can you explain to us?

A.—I think it is quite possible to do this. At present, you will find that the income-tax officers rarely tell people that they are entitled to abatement even if they are so entitled under the rules. I think the non official agency would command more confidence.

Dr Paranjpye *Q.*—May I put it to you in another way? Now in the matter of house taxes, etc., in a municipality, the assessment is generally done by the non official members, is there not a complaint against this?

A.—*It may be so where public opinion is ineffective*

Q.—You think there will be greater public opinion in this?

A.—I think even in the case of municipalities the ideas are changing, I personally believe, if non officials are chosen, they will not be looked upon as mere agents for increasing the income tax. Now-a-days people think it is rather a smart business to cheat the income-tax officer.

Sir Percy Thompson *Q.*—We have been told that people never like to tell even their neighbours about their income but do not mind telling the income tax officer That is what we have been told

A.—I do not think that this is so, unless the neighbours are rivals in trade.

Dr. Paranjpye. *Q.*—Do you know that there have been applications to the income tax officers that their books should be examined in a closed room and nobody else should see their books?

A.—If a small committee did that (not their rivals surely) there will be no objection raised. You can always pick out well known members of the commercial community for this purpose

Q.—The difficulty is in getting such people to act without remuneration Do you think that the panchayat which settles the chowkidari tax is satisfactory?

A.—At present panchayats are not quite democratic bodies As a matter of fact all their old foundations have been destroyed It is only the remnant of the old system that is there.

The President. *Q.*—You say that the history of the salt tax shows that whenever the duty has been reduced the consumption *per capita* has increased On what basis you make this statement?

A.—I think these figures have been given to us in the budget speeches of the late Mr. Gokhale. That shows in three years successively when the tax was reduced consumption increased.

Q.—We have not been able to get the exact figures of consumption

A.—The total consumption is shown there

Q.—How do you arrive at it?

A.—I am relying on the official figures

Q.—You say you would prefer a tax on spices?

A.—Yes. I mean by spices, the *masala* made of pepper, etc.

Q.—Don't you think that a tax on tobacco or betel nuts would be comparatively easier than taxing spices?

A.—I think the arms of Government are long enough to catch anything; I am only discussing the point of principle. I do find that expenditure of a poor man on this article will be far less than on salt.

Q.—Do you think that the poor man would prefer a tax in the case of betel nuts?

A.—I think it will not interfere with his efficiency. It is not an absolute necessary of life.

Q.—You say that a fair trial should be given to a policy of total prohibition at least in selected localities. Did America find total prohibition successful?

A.—I do not say in the whole country. I cannot understand why an experiment should not be made at least in selected areas.

Q.—Have you studied the experience of the big cities and the smuggling that takes place on account of this policy?

A.—It is not unavoidable in such cases. I think the risk of an experiment is worth taking.

Dr. Hyder. *Q.*—How would you collect the tax on marriage processions?

A.—When marriage processions pass through public streets, you will have to make a rule that passes should be taken. It is quite easy to regulate this.

Q.—Would it not discourage collection of people during the marriages?

A.—No. That is a fit occasion to levy a tax.

Q.—What will you do in cases where there is no procession?

A.—In other cases it is easy to insist on registration. In the case of Hindus and Muhammadans it is quite easy to levy a tax on processions. I only advocate a principle. I don't say that it is the only way of taxing the marriages.

Sir Percy Thompson. *Q.*—You say in the case of cotton goods that the imports have declined because of high customs duties and high prices. Which had the greater influence—custom duties or high prices?

A.—It is difficult to separate the effects of the two. But I contend that if the customs duty had not been raised, the prices would have been lower, and consumption greater.

Q.—But surely the high customs duties which represent 8 or 9 per cent of the price could not have had greater influence than the rise of 250 per cent in prices?

A.—Yes, that is so.

The President. *Q.*—You say that you would impose a tax on turnover, sales, etc. What sort of a tax do you propose to have?

A.—I would like to have the Japanese system. It varies the tax with *amount of sales, amount of capital, rental value of buildings and shops, etc.*

Q.—It is a tax on sales of all commodities?

A.—Yes. But it is a graduated tax. It is described in Mr. Findlay-Shirras' book, page 401.

Q.—Do you think that this tax would be understood by people in India?

A.—I do not think that the average Indian shopkeeper is more backward than an average Japanese.

Dr. Paranjpye. *Q.*—You say you prefer a more general extension of the entertainments tax.

A.—Yes, at present the tax is levied only in few cities containing more than a lakh of population.

Q.—Is it not levied in smaller towns?

A.—Not in towns, say, with a population of 40,000.

Q—You belong to Hyderabad; what places of entertainments are there in Hyderabad?

A—There are four cinemas and one theatre.

Q.—How much tax would you be able to collect from these?

A.—No much for a province. But I suggest it as a tax for local purposes

Q—Take a town like Sukkur.

A.—It is a more prosperous town.

Q.—Hyderabad is the hub of Sind?

A—It is not a business centre, it is a place for retirement.

The President. Q—Would you please look at this statement of consumption of liquor?

A—The base taken here is the year 1908, it is a year of abnormally high consumption as the table shows. If you omit the year 1908 and take the year 1909 as the base, you will find no decrease in any year—rather an increase. It is 4 1 for all the years mostly, except for 1915, which is higher.

Q—That shows that 1909 is a year of very low consumption.

A—You cannot say that if you take the figures as a whole. A particular year might show higher consumption. If you omit the first year, the figures would show something quite different from what you wish to suggest. The figures support my contention rather than yours.

Dr Paranjpye. Q.—You say that if the exemption limit in the case of income-tax has not led to undue fractionisation of property, there seems to be no reason why it should in the case of land revenue. Is not this the usual way in which several business men escape paying income tax?

A—I do not think the percentage will be very large, especially if an exemption allowance is made for each individual

The President Q—In reply to Question 105, you say that if mines are left in private hands, the profits should be taxed at a much higher rate.

A—Because they constitute a natural monopoly

Q—Are you concerned with the royalty which is taken by the owner or with the profit of the company?

A—You must take the profit of the company along with the ownership into consideration

Q—Generally speaking, they are not in the same hands

A—In that case, you will tax both, the owner to a greater extent.

Q—The owner is getting a pure unearned income

A—My contention is that these are exhaustible sources of wealth and the State must take a large share of them.

Q—Will you take it out of the owner's unearned income or out of the income of the company which is taxed to income tax?

A—Largely from the owner, but I would not allow the company to escape a fair share of the tax.

Q—Would you in that case get anybody to carry on the business of exploitation of mines?

A—I do not think any one would consider this unfair since mines are an exhaustible source of wealth

Q—I see you would like to tax the unearned increment

A.—Not only the unearned increment, but in several cases I would take more in order to discourage the process of rapid exhaustion of our national mineral resources

Q.—It comes to this, where the mine belongs to the State, you give the man a State domain in the shape of the mine and then you take a large percentage of what he gets

A.—The mines all belong to the community; no individual is responsible for their creation A man might receive more and more revenue from a mine without his doing anything for it

Q.—The zamindar's share is unearned income?

A.—It is a question of public policy. These exhaustible sources of wealth should not be allowed to be exhausted in order to supply raw materials to foreign industries; they must remain for the benefit of the future development of industries in the country

Q.—What would be your plan for taxing the company?

A.—A higher percentage in income-tax

Q.—Would you tax a company which is engaged in the mining business at a higher rate than you would a company engaged in any other business?

A.—Yes.

Q.—What share of the unearned increment of the owner would you tax?

A.—I cannot say off-hand; I must look up the figures of their earnings

Q.—There is a pure windfall?

A.—To what extent the windfall has been increasing during the last twenty years is a matter for investigation

Q.—Is it not one of the modern theories of taxation that an article may be taxed more heavily if it is a pure windfall? Would you, in that case, take 50 per cent. of the windfall?

A.—No, I would not proceed so fast in India I would not take more than 25 per cent. in any case

Q.—Suppose your 25 per cent. actually works out at less than the income-tax?

A.—I suggest 25 per cent. in addition to the income-tax

Q.—Please refer to your reply to Question 120 Would you tax goldsmiths and jewellers?

A.—Yes, it appears to me better than taxing horses and servants

Q.—How would you levy such a tax?

A.—I would have a license fee, graduated according to the amount of business done

Dr Paranjpye *Q.*—It would be a very small tax

A.—A license fee would not be a small matter, especially if the jeweller or goldsmith is living in a big city where he does a roaring business In villages also the license tax would be productive.

Q.—Would it not be a tax on a particular caste?

A.—I do not mind that

The President *Q.*—Your object is to tax gold which goes into uneconomic uses?

A.—Yes, people use gold for the sake of display very largely.

Q.—How would your scheme work better than an import duty on silver and gold?

A.—As a matter of fact, the value of an ornament very often is much more than the value of the gold or silver in it

Q.—Would the license fee you propose be graduated according to the value of the article sold?

A.—It would be graduated according to the business done also

Q.—Your reply to Question 138. You say you would advocate the scheme of Professor Rignano, would you extinguish the property altogether at the third generation?

A.—I would go at least as far as the fifth generation

Dr. Paranjpye Q.—You were just disclaiming socialism.

A.—Everything that is socialistic is not taboo on that account. A man like Professor Marshall was not a socialist and yet he suggested a steeply graduated inheritance tax.

The President Q.—Would you apply the system to permanently settled districts, for instance?

A.—Yes, I would.

Q.—Would there not be serious political effects?

A.—I do not suggest a rapid extinction of the landed proprietors; I would go on gradually.

Sir Percy Thompson Q.—But you mean ultimate confiscation, at the fifth or tenth generation?

A.—No. I would certainly stop at the level of an economic holding.

Dr. Paranjpye. Q.—After that you would not tax?

A.—May I draw your attention to the fact that I have already suggested the exemption of a minimum of inherited wealth, say up to Rs. 5,000.

The President Q.—Your reply to Question 141. You would limit the levy of a death duty in a joint Hindu family to the case when the surviving coparceners all belong to a lower generation than the deceased coparcener?

A.—Yes, this would equalize the condition of different communities.

Dr. Paranjpye Q.—Suppose there is no father, and two brothers are in charge of a joint family, you would charge on the share of each brother.

A.—Yes.

Q.—But if the father died, you would charge on the whole estate.

A.—That is so.

The President Q.—I understand the scheme that you advocate to be to charge only when the last brother dies.

A.—No, I would charge on each occasion to the extent of the share of the coparcener of the older generation.

Dr. Paranjpye Q.—You appear to agree in Question 143 about the disadvantage arising from the death of the earning member but don't you think that the disadvantage is slightly less in the case of a joint Hindu family, because there are other members who would take care of the property?

A.—The number of dependants in the joint family is greater, so that the advantages and disadvantages cancel each other.

Q.—Your reply to Question 171. You appear to advocate assessment of taxation by representative bodies.

A.—No, I rather think that there should be a non-official committee associated with the officer taxing.

Q.—Don't you feel that in the present condition of India the time has not yet arrived when the direct assessment of individuals could be left to these people?

A.—At the same time, one man should not have an arbitrary authority.

Q.—Take the illustration of your own town of Hyderabad. You know that there was a big contest about the levy of a house duty. You are yourself against octroi, but Hyderabad practically gets all its income from octroi and would not levy a house duty. The reason for the suspension of the Hyderabad Municipality to a certain extent was its refusal to levy a house duty.

A.—No, the reason given was that they had not managed their funds all right.

Q.—They did not agree to the house duty, because the members of the Municipality themselves would have to pay it.

A.—I would not put it like that. It was largely due to the fact that people do not feel that taxes are paid for social objects. I do feel strongly that at present the taxing officer is hardly a person to be left practically supreme.

Written memoranda of gentlemen not examined orally.

Written memorandum of the Hon'ble Khan Bahadur Saiyid Zahiruddin, Member, Council of State, Delhi.

I would beg to submit that the series of questions have been framed on the principles enunciated by modern philosophers and economists, and formulated by writers of treatises on political economy from the time of Adam Smith, the author of Wealth of Nations, down to the present day when economics and politics have been made a science and are taught in schools and colleges

2 I would venture to submit that India is a peninsula or a continent which is a conglomerate of innumerable castes and creeds with diverse notions, prejudices, peculiarities of ways of life and phases of feeling and traditions and hereditary qualities

3 The modern thinkers have devised their doctrines for adoption by States that had or have no laws or canons or customs England has old statutes and customs and laws of real and personal property and descent to land

4 India has —

(i) the Institutes of Manu,

(ii) the Institutes of Akbar,

(iii) the Codes of Aurungzeb, containing Regulations for excise, intoxicating drugs, exports and imports,

(iv) the grant of the Dewany to Lord Clive,

(v) the Permanent Settlement of Lord Cornwallis,

(vi) the Bengal, Madras, and Bombay Regulations,

(vii) Treaties and Engagements with the Indian Princes,

(viii) the memorable Proclamation of Her Gracious Majesty Queen Victoria, afterwards Empress of India, which is the Magna Charta of India, in which allusion has been made to the feelings of attachment with which the natives of India regard the lands inherited by them from their ancestors, and in which among other things, it is ordained that in framing and administering the law, due regard be paid to the rights and usages and customs of India,

(ix) this Proclamation was affirmed by the Imperial Message of Emperor Edward the Seventh, dated the 2nd November 1908, and reaffirmed by the message of Emperor George the Fifth,

(x) Land Revenue is not a tax, and it is not treated as such by the landlords and tenants themselves who pay it without grudge It is a boon to agriculturists Formerly all land vested in the Moghul sovereigns On the advent of the British Rule the Decennial Settlement was made Permanent for reasons of state Bengal Regulation XLVII of 1793 declared zamindars proprietors of their lands and conferred on them the power to alienate their lands

5 The Land Revenue system of India is based on a peculiar footing and has peculiar predicaments The system is founded on ancient covenant and politr which hold good and are inviolable up to the present day with the marked result and wonderful phenomenon that the agriculturists as a class are as a rule steadfast in their allegiance to the Crown and their loyalty is unshaken and unswerving and they are not influenced by the industrialists

India is an agricultural country from time immemorial and agriculture is the common wealth of the people in spite of the improvements in science and industries The agriculturists are the back bone of the Indian nation

The treatment of Land Revenue as a tax may be said to amount to a misjoinder. Land Revenue from its own nature, deserves to be left intatt in the public interest, to be governed by the Revenue Laws and Regulations of the various provinces The inclusion of land Revenue in the term "tax" will lead to serious confusion and to dangerous complication, and is calculated to cause a revolution in the old established system.

Land Revenue proper has already been substantially and materially affected by cesses and water rates, and the liabilities of landholders are great They are bound to supply provisions to troops on the march and to officers on tour, and they contribute to works of public utility, and in times of calamities, flood and famine to relief funds

6 It is said that revision of the Land Revenue in the permanently-settled provinces will give an increase of a crore of rupees. The estimate is open to grave objections from practical points of view Under the present conditions and atmosphere of the country it is apprehended that there will be a fall in revenue The anarchists of Bengal, a permanently-settled province, will welcome the intention of Government to disregard the Permanent Settlement The revision will create a revolution

"Land Revenue" and "Taxes on Income" are the complement of each other, the former being a levy on agricultural incomes and the latter on industrial or professional incomes

It is impossible in a note of this kind to give any sketch of the various land revenue systems in India Any adequate description would require a complete volume.

In several provinces, the charge for the supply of water from irrigation canals is consolidated with the land revenue demand Such consolidated rates are in the first instance credited to "Land Revenue" and an approximate amount calculated as the share due to irrigation is then transferred to the head "XII—Irrigation, etc" (*vide* deduct entry at foot of Account No. 18) Where a separate water rate is levied, it is credited direct to the irrigation head

7 In the permanently-settled or temporarily-settled tracts, new lands not included in the settlement may be valued, so lands under tea or cinchona cultivation, and forest lands may be assessed

8 Land containing minerals, salt, coal, gold, petroleum, chromite, graphite, iron ore, lead, magnesium, mica, rubies, sapphire, sulphur and tin, wherever situated may properly be valued and assessed independent of any former general assessment

9 B, p 7, does not represent the true conditions of the country and its people They were compiled for particular purposes

10 Salt is already taxed

11 Tobacco cultivation may be justly taxed Breweries and distilleries may be taxed

12 Inheritance is already taxed indirectly Inheritance is governed by Statute 21, George the III, Chapter 70

13 The present system of land revenue does not lead to official tyranny and extortion The time of payment is convenient and may be changed by the Board of Revenue or the Chief Controlling Revenue Authorities on representation by the cultivators

14 *Federal Government*—India is not a Federal Government, but a Sovereignty The rules of the former cannot be properly applied to the latter

15. Tolls may continue to be levied (Act VIII of 1851).

A supplementary note on the subject of the Permanent Settlement of Bengal, Bihar and Orissa.

It has been kindly supplied to me by the chief landed Noble of Bihar The note voices the feelings and views of the landed nobility and gentry of Bengal and Bihar, and deserves the consideration of the Committee

2 In my replies to the Questionnaire I have stated that the Decennial Settlement was made Permanent for reasons of State, and the supplementary note explains some of the important reasons of State.

THE PERMANENT SETTLEMENT.

"The chief causes which forced the Bengal Government to make the Permanent Settlement was utter uncertainty of land revenue at the time, and paltriness of its actual receipt Landholding was then unprofitable, and so people neglected it altogether, because the lands were mostly fallow and that there was not even sufficient number of labourers in the Province to work on them. After the permanent settlement the landlords on faith of its inviolability sunk large amount of capital to reclaim and improve the lands, and at great costs induced the labourers of the United Provinces and the Central Provinces to migrate and settle in Bihar For some years after the permanent settlement most landlords had to suffer loss and pay the Government revenue from other sources of income Hence if zamindars are getting some profits from lands, it is due to their honest labour and capital spent thereon

Further large number of estates have changed hands at prices paid on the existing assets Under the circumstances it would be quite unjust to levy any tax on agricultural income and the solemn pledge of inviolability given regarding the permanent settlement is really sacred and binding for all times and on all Governments, whether old or new"

Written memorandum of the Hon'ble Mr. Phiroze C. Sethna, Bombay.

Q 3.—The Income Tax Department has recently made many administrative improvements trying to include all persons liable to income-tax. If to these figures are added figures of land revenue, we shall get figures corresponding to the estimates of national income for other countries

Q 4.—I would advocate taking of a census of production as in England.

Q. 5.—*Vide* previous reply.

Q. 6.—Yes.

Q 7.—I should think they have.

Q 9.—The population may be divided first into (1) Producers, (2) Middlemen and (3) Consumers.

(1) Producers

- Industrialists
- Carriers
- Agriculturists
- Property owners

(2) Middlemen

- Merchants
- Traders
- Bankers
- Commission Agents

(3) Consumers

- Income-Tax Assessees
- Non-Income-Tax Assessees

Q 12.—Bastable defines a tax thus.

"A tax is a compulsory contribution of the wealth of a person or body of persons for the service of public powers".

According to this definition revenue from forests is certainly a form of taxation

Q 13.—The endeavour should be merely to secure a bare return on the capital invested, as otherwise Government enters into competition with private enterprise, which is not desirable. The element of taxation will appear in the third case

Q 14.—There is an element of taxation in the revenue derived from all these cases

Q 15.—These dues must be considered as payments for service rendered so long as they are reasonable and fair. Any intention, however, to derive revenue from these dues for the State will introduce in them an element of taxation.

Q 19.—Such taxes cannot be considered in dealing with the general incidence of taxation.

Q 20.—There is a distinction between taxation levied for a particular locality and taxation levied for general purposes of the local body. Water tax and sanitary cess may be cited as instances of the former class while general property tax may be cited as an instance for the latter. I would not consider any taxes as voluntary and as such excluded from consideration in estimating the burden upon the tax payer

Q 21.—I do not agree as after all revenue derived from these classes is also a revenue derived from a section of the people and is to that extent a burden on the body politic.

Q 24.—I would consider even these taxes as ordinary taxes and not as voluntary taxes Entertainment and travelling are as much necessities of life as motor-cars or watches for instance and any tax on them is a tax on the public.

Q. 25.—No.

Q 26.—I do not approve of the exemption of agriculture and specially the zamindar classes from taxation like income-tax.

Q. 27.—Every member of the community should and does pay some tax or other in direct or indirect form.

Q 28.—Yes.

Q 29.—Preferably direct.

Q 30.—Poll tax would be strongly resented in this country and I would not suggest it.

Qs 31 and 32.—Not having studied properly the nature of these taxes I cannot say if they are in order less objectionable than salt tax, etc., but I certainly think that salt tax and excise duties on cotton are highly objectionable.

Q 33.—I cannot give an off-hand reply to this till I know which tax is proposed to be abolished.

Q 34.—The present scheme of gradation is satisfactory.

Q 35.—No.

Q 36.—Yes

Q 37.—The super-tax on companies should be abolished.

Q 38.—Yes I am in favour of the removal of the exemption.

Q 40.—I would not reduce the limit of income-tax

Q 41.—The reproach is being removed though I think evasion of income-tax is still going on to a large extent.

Q. 42.—No, as Indian traders and merchants have got their own particular systems of accounts and would strongly resent any attempt at such standardised uniformity.

Q 43.—All such methods will not be practicable in this country

Q 44.—No, as it would otherwise affect the floatation of loans

Q 45.—There would be no objection to collecting income-tax by means of a special stamp duty on the coupon

Q 47.—The present arrangement in regard to assessment on the previous year's income is satisfactory

Q 49.—I am opposed to any excise duty as it will be a burden upon indigenous industries

Q 50.—It would neither be advisable nor practicable

Q 51.—I do not.

Q 52.—Even the poorest classes pay some tax to the State as they have to purchase piecegoods, kerosine, matches, etc I am strongly opposed to salt tax as also to any other tax on the poor as they are already paying indirect taxation

Q 53.—The rate of tax in this country, looking to the comparative poverty of the people is very high The *per capita* income of countries specified is much larger than that of India

Q 56.—A protective duty should be imposed on imports of foreign salt. I do not think it will be unfair to the Bengal consumers as it will develop the salt industry in the country and Bengal consumers will get "Liverpool salt" made in this country at a little extra cost in the beginning

Q 61.—I anticipate introduction of a policy of total prohibition in particular areas within a few years

Q 119.—I am not in favour of any of these taxes.

Q 160. (i).—I am not in favour of an universal income-tax.

(ii).—I am in favour of income-tax on agricultural incomes.

(iii).—This would be an extremely invidious and cruel tax as Indian women have in their dowries their only means of subsistence in case of death of their husband or disagreement with him.

(iv).—I am in favour of tax on luxuries like race horses and motor cars but I would not tax patent medicines nor do I approve of death duties.

(v).—I approve of export duty on jute but not on hides and skins. Our experience during the war showed the inadvisability of the latter tax.

Q. 161.—No For one thing country tobacco is mostly consumed by the poorer classes to whom in their life of poverty and misery it is perhaps the only luxury available. Taxing country tobacco would therefore mean taxing the classes who are the least able to bear it.

Q. 163.—Yes.

Q. 164.—No

Q. 165.—The State has got a monopoly of salt, opium and hemp drugs in this country. I would not advise the extension of this monopoly to any other commodity.

GIPD—L 21 DO—5-10-25—621.